Hi-P INTERNATIONAL LIMITED

赫 比 国 际 有 限 公 司

# Annual Report 2006

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# *Corporate Information*

**BOARD OF DIRECTORS**
**Executive:**
Yao Hsiao Tung (Executive Chairman and Chief Executive Officer)
Wong Huey Fang

**Non-Executive:**
Dr Tan Khee Giap (Independent)
Leong Lai Peng (Independent)
Yeo Tiong Eng
Chester Lin Chien

**AUDIT COMMITTEE**
Dr Tan Khee Giap (Chairman)
Leong Lai Peng
Yeo Tiong Eng

**NOMINATING COMMITTEE**
Dr Tan Khee Giap (Chairman)
Leong Lai Peng
Yeo Tiong Eng

**REMUNERATION COMMITTEE**
Leong Lai Peng (Chairman)
Dr Tan Khee Giap
Chester Lin Chien

**COMPANY SECRETARIES**
Tan Ping Ping
Andrew Cheong Fook Onn

**REGISTERED OFFICE**

11 International Business Park
Jurong East
Singapore 609926
Tel: (65) 6268 5459
Fax: (65) 6564 1787
Website: **www.hi-p.com**

**SHARE REGISTRAR**
Lim Associates (Pte) Ltd
3 Church Street #08-01
Samsung Hub
Singapore 04948

**AUDITORS**
Ernst & Young
Certified Public Accountants
One Raffles Quay
North Tower Level 18
Singapore 048583

**AUDIT PARTNER-IN-CHARGE**
Tan Wee Khim (Appointed since financial year ended 31 December 2005)

Dear Shareholders,

Our revenue in 2006 grew a respectable 33% to S$839.1 million. Net profit, however, declined 35% to S$57.5 million due to higher materials content in the product mix, higher staff costs and excess capacity.

Clearly, this performance is not satisfactory and far below our expectation. We are working very hard to improve our performance in 2007, particularly in terms of gross margin, capacity utilization and return on equity.

We did, however, build a strong foundation in 2006, and these are highly critical for the company going forward.

Firstly, we successfully set up our own vacuum metallization capability and started to in-source this process in Q4 FY2006. Secondly, we managed to secure several new customers, some of which have already started to load us in 2006. Thirdly, and most importantly, I believe we have considerably strengthened our internal processes and procedures, especially in finance and management information systems.

The Wireless Telecommunications (WL) strategic business unit (SBU) benefited the most from the new vacuum metallization capability and new customers. The SBU grew revenue by a very strong 39% in Q4 FY2006 compared to Q3 FY2006, reaching an all-time high of S$167.3 million for the quarter. This growth rate is much higher than the underlying mobile handset industry revenue growth of around 15-20% and thus suggesting that Hi-P is gaining market share after a difficult period in 2005 and early 2006.

WL contributed 65% of Hi-P's revenue in Q4 FY2006, and this business firing up strongly bodes well for us in 2007. However, as with the broader handset industry, we expect Q1 FY2007 to see a seasonal decline.

The Computing & Automotive (CA) SBU grew revenue by a decent 17% to S$69.5 million for the full year and managed to secure quite a few major names as new customers, which we believe will contribute significantly in the near future. CA's two new sites, in Suzhou and Thailand, turned around in the second half of the year and should contribute positively for the full 2007.

Our Consumer Electronics & Electrical (CE) SBU had a relatively flat year. Revenue was down 1% to S$259.7 million as a major customer was undergoing post-merger rationalization and delayed some new projects. CE was the SBU which expanded the most in 2005, with 3 new sites coming on-stream in 2006 in Chengdu, Xiamen and Mexico. During 2006, CE also set up the new Poland plant which will become operational in 2007. The new plants in Poland and Mexico, in particular, significantly enlarge Hi-P's global footprint and also confer certain competitive advantages in terms of market penetration and cost.

2006 was a difficult year but very valuable indeed in terms of strengthening Hi-P's global competitiveness further. We have had to seriously re-examine and refine our business model as we scale up amidst a volatile operating environment as we are approaching the S$1 billion revenue mark.

We have put in place good plans which we intend to fulfill in the near future. For 2007, we have guided for growth in both our revenue and net profit, and we are confident in achieving them.

Thank you for your support,

**Yao Hsiao Tung**
Executive Chairman and CEO

# Operations Review

## Overall Performance

For the full year, 2006, revenue rose 33% year-on-year (yoy) to S$839.1 million while net profit decreased 35% yoy to S$57.5 million.

## Revenue Analysis

*By Strategic Business Unit (SBU):* Revenue from the Wireless Telecommunications (WL) strategic business unit (SBU) grew 64% yoy to S$509.9 million due mainly to a shift in mix to products with higher materials content, higher production volume and new customer contribution. WL accounted for 61% of Group revenue for the year. Revenue from the Consumer Electronics & Electrical (CE) SBU was down 1% yoy to S$259.7 million as a key customer was still consolidating after a merger. CE accounted for 31% of Group revenue for the year. Revenue from the Computing, Automotive, Medical and Others (CA) SBU was up 17% yoy to S$69.5 million due to steady demand from existing customers and new customer contribution. CA accounted for 8% of Group revenue for the year.

*By Activity:* Precision Plastic Injection Molding revenue grew 28% yoy to S$344.1 million due mainly to increased sales to WL customers. Assembly revenue was up 41% yoy to S$444.9 million, also due to higher sales to WL customers. Mold Design and Fabrication revenue was up 1% yoy to S$50.1 million.

## Profitability Analysis

Gross profit was S$121.3 million, down 14% yoy despite the 33% rise in revenue. This was due mainly to higher materials content in the product mix, higher staff costs and excess capacity. Gross margin was 14.5% in FY2006, down from 22.4% in FY2005.

Operating profit was down 31% yoy to S$64.0 million. In comparison with revenue growth of 33%, operating expenses increased 18% yoy to S$64.3 million. Thus, the reduction in operating profit was attributable to lower gross profit. Operating margin was 7.6% in FY2006, down from 14.8% in FY2005.

## Cashflow Analysis

The group reported net cash inflow from operating activities of S$27.6 million, compared to an inflow of S$79.3 million in FY2005. Before working capital changes, net interest expense and tax paid, operating cash inflow was S$91.6 million in FY2006, down 23% yoy due primarily to lower profitability. Net cash used in investing activities was S$78.2 million in FY2006 compared to S$69.7 million in FY2005 due mainly to spending for capacity expansion. Net cash inflow from financing activities was S$10.3 million, compared to an outflow of S$24.5 million in FY2005, due to new loans offset by the payment of dividends. The Group reported a net decrease in cash and cash equivalents of S$40.3 million in FY2006.

## Balance Sheet Analysis

The Group’s financial position remains strong as it ended FY2006 with cash and cash equivalent of S$32.9 million and gross debt of S$25.4 million. Gross gearing remained low at 6.4%.

**MR YAO HSIAO TUNG** is our Executive Chairman and Chief Executive Officer. He was appointed to the Board in May 1983. He is responsible for formulating the strategic directions of the Group as well as overall management of the operations. Mr Yao has more than 40 years of experience in the precision tooling and plastic injection molding industry. He was a technical service manager with Du Pont Singapore Electronics Pte Ltd before joining the Group in 1980. Mr Yao holds a Diploma in Chemical Engineering from Taiwan Kaohsiung Technical College.

**MDM WONG HUEY FANG** is an Executive Director and Chief Administrative Officer of the Group. Her key responsibilities include managing our Group's administrative, legal, public relations and procurement functions. She was appointed to the Board in January 1988. Prior to joining our Group in 1985, Mdm Wong was a purchaser with Taiwan-based Aven Electronics Co. Ltd.

**MR YEO TIONG ENG** is a Non-Executive Director of the Group and was appointed to the Board in April 1987. He is currently the Senior Regional Financial Director of Molex Far East South Management Pte Ltd. Mr Yeo graduated with a Bachelor's degree in Accountancy from Nanyang University. He also holds a Masters of Business Administration (Business Law) from Nanyang Technological University. He is a member of the Institute of Certified Public Accountants of Singapore.

**DR TAN KHEE GIAP** is an Independent Director of the Group and was appointed to the Board in November 2003. He is an Associate Professor of Banking and Finance and the Associate Dean of Graduate Studies Office at Nanyang Technological University. Dr Tan also serves as a consultant to multinationals and global organisations in various areas. He is currently the Deputy President of the Economics Society of Singapore. Dr Tan holds a PhD in Economics from the University of East Anglia, UK.

**MR CHESTER LIN CHIEN** is a Non-Executive Director of the Group and was appointed to the Board in August 2004. Mr Lin was previously the Executive Vice President and President of Solectron's Asia Pacific region. Prior to joining Solectron, he was the Chief Executive Officer of NatSteel Electronics from 1993 to 2001. Previously, Mr Lin also worked with SCI Systems, General Electric and General Instruments (Taiwan). He holds a Bachelor's degree in Electrical Engineering from the Taipei Institute of Technology.

**MRS JENNIFER YEO (Madam Leong Lai Peng)** is an Independent Director of the Group and was appointed to the Board in November 2006. She is the founder and chair of the board of directors of Yeo-Leong & Peh LLC, a law firm which she set up in 1987. She graduated from the National University of Singapore in 1981 with LL.B (Honours) and from Boston University in 1985 with LL.M in Banking Law Studies. She was admitted to the Singapore Bar in 1982 and is also a Solicitor of England and Wales. Mrs Yeo is an approved mediator of the Singapore Mediation Centre and is also on the reserve panel of arbitrators of the Singapore International Arbitration Centre. She sits on the panel of Chairman of Disciplinary Committee pursuant to an appointment by the Chief Justice under the Legal Profession Act. Mrs Yeo is also a fellow of the Singapore Institute of Arbitrators and the Chartered Institute of Arbitrators. She presently serves as council member of the Singapore Manufacturers' Association (SMA) and is also the director and secretary of Viva Foundation for Children with Cancer, a Singapore charity which has been granted the status of Institution of Public Character.

# *Management Team*

**Samuel Yuen Chung Sang** is our Chief Financial Officer and is responsible for the overall financial operations and management. Prior to joining the Group on 26 June 2006, Mr Yuen was the Executive Director & CFO of SGX-listed Fu Yu Corporation Limited, a precision plastic injection molding and mold-making company. Prior to that, he had worked extensively in China and Hong Kong. His previous experience included finance and general management experience in various industries such as freight forwarding, hotel and property investment and trading. He holds a Bachelor of Business Administration degree (major in Accounting) from the Chinese University of Hong Kong and a Masters of Business Administration degree (major in Finance) from Dalhousie University, Canada. Mr Yuen is a member of the Singapore Institute of Directors.

**Gary Ho Hock Yong** was our Managing Director, Wireless SBU until 31 March 2007. From 1 April 2007, he assumed a newly created position for Corporate Business Development focusing on presenting Hi-P as an integrated supplier to our current and prospective customers. Gary will be responsible to grow our customer base and also deepen relationship with existing customers to bring greater sales. He was responsible for the overall management and business development of the Wireless strategic business unit. He has been with the Group since April 1996 and had previously assumed the roles of Senior Sales Engineer, Assistant Sales Manager, Sales Manager, Regional Sales Manager, Corporate Business Manager & Marketing Director within the group. Mr Ho holds a Diploma in Production Technology from the German Singapore Institute.

**Ang Lien Peng** was our Managing Director, Computing & Automotive SBU until 31 March 2007. From 1 April 2007, he assumed the role as Managing Director, Wireless SBU. Metal Stamping SPU, which has great synergy with Wireless businesses, will be merged into Wireless SBU. He was responsible for the overall management and business development of the Computing & Automotive strategic business unit. He first joined the Group in September 1998 as a Sales Account Engineer. Mr Ang has more than 20 years of experience in the precision plastic injection molding field, having worked in Omni Plastics Pte Ltd, Singa Plastics Pte Ltd and Philips Singapore Pte Ltd. He holds a Bachelor Degree in Business Administration from the Oklahoma City University and a Diploma in Production Technology from the German Singapore Institute.

**Alan Ong Joo** Siew was our Managing Director, Metal Stamping SPU until 31 March 2007. From 1 April 2007, he assumed the role as Managing Director for Computing & Automotive SBU. He was responsible for the overall management and business development of the metal stamping special process unit. Mr Ong has more than 20 years of experience in the metal stamping field. Prior to joining the Group as Operation Manager, Mr Ong was Factory Manager of Sunningdale Precision Industries (Shanghai) Co., Ltd. Previously, he also held top management positions in Kato Spring (S) Pte Ltd., Seagate Technology & Maxtor Peripherals, Inc. Mr Ong holds a Professional Diploma in Mechanical Engineering from Singapore Polytechnic (SP).

**Chan Earn Meng** is our Director of Human Resources. He oversees the Group's functions in human resources, administration, environmental health and safety and security. Prior to joining Hi-P in September 2004, he held human resources positions at OCBC Bank and Seagate International. Mr Chan was a commissioned officer with the Ministry of Defence before entering the private sector. He holds a Bachelor of Arts with Honours from the National University of Singapore and a Masters in Business Administration from the University of Southern Queensland.

**Gerhard J. Zebe** was our Managing Director, Consumer Electronics SBU until his recent decision to step down on 31 March 2007 for health reasons. The Managing Director role for CE SBU will come under the direct purview of Mr. Yao Hsiao Tung until a new managing director is appointed. With effect from 1 April 2007, he assumed an external advisory role as senior management consultant to drive Hi-P's Eastern European business and will continue to report to Mr. Yao Hsiao Tung in this capacity. Before he stepped down, Mr Zebe was responsible for the overall management and business development of the Consumer Electronics strategic business unit. Mr Zebe has more than 29 years of experience in the precision plastic injection mold design and fabrication industry. He was previously Managing Director of the Group's Greater China Operations. Prior to joining the Group in June 2002, Mr Zebe was the Technical Director in Braun (Shanghai) Co., Ltd. He had previously held various managerial positions in German-based companies. Mr Zebe holds a Diploma for Tool Making/Tool Design with the German Chamber for Industry and Commerce.

# *Hi-P Group of Companies*

**HOLDING COMPANY**

**Hi-P International Limited**
11 International Business Park,
Jurong East, Singapore 609926

**SUBSIDIARIES – SINGAPORE**

**Hi-P Industries Pte. Ltd.**
No.9 Bukit Batok Street 22,
#01-00, Singapore 659585

**Hi-P Samkwang Technology (Singapore) Pte. Ltd.**
11 International Business Park,
Jurong East, Singapore 609926

**Hi-P Management Services Pte. Ltd.** *(previously known as Hi-P Tech SingaporePte Ltd)*
11 International Business Park,
Jurong East, Singapore 609926

**HI-P Precision Mold Manufacturing Pte. Ltd.**
11 International Business Park,
Jurong East, Singapore 609926

**SUBSIDIARIES - EAST CHINA**

**Hi-P (Shanghai) Industries Co., Ltd.**
Building 8, No. 1006, Jinmin Road,
Pudong New District, Shanghai, the PRC

**Hi-P Camera Products Co., Ltd.**
No. 366, Jin Zang Road,
Pudong New District, Shanghai, the PRC

**Hi-P Precision Plastic Manufacturing (Shanghai) Co., Ltd.**
No. 366, Jin Zang Road,
Pudong New District, Shanghai, the PRC

**Hi-P (Shanghai) Housing Appliance Co., Ltd.**
No. 366, Jin Zang Road,
Pudong New District, Shanghai, the PRC

**Hi-P Shanghai Electronics Co., Ltd.**
No. 366, Jin Zang Road,
Pudong New District, Shanghai, the PRC

**Hi-P (Suzhou) Technology Co., Ltd.**
Building G, No. 72 Loujiang Road,
Kuatang Sub-Zone, Suzhou Industrial
Park, Jiangsu, the PRC

**Hi-P (Suzhou) Electronics Co., Ltd.**
No.73 Lu Shan Road,
Suzhou New District, Jiangsu, the PRC

**Hi-P (Shanghai) PrecisionMold & Die Co., Ltd.**
Building 3 and 4, 1006 Jinmin Road,
Jinqiao Export Processing Zone,
Shanghai, the PRC

**Hi-P (Shanghai) Technology Co., Ltd**
No. 3151 Gu Gao Road, Cao Lu Town,
Pudong New District, Shanghai, the PRC

**Hi-P Samkwang Technology (Shanghai) Co., Ltd**
No.1F, 3151 Gu Gao Road,
Cao Lu Town, Pudong New District,
Shanghai, the PRC

**Hi-P (Shanghai) Stamping Mold & Component Industries Co., Ltd**
No.96 Jinwen Road, Shanghai Zhuqiao
Airport Industrial Nanhui District,
Shanghai, the PRC

**SUBSIDIARIES - SOUTH CHINA**

**Hi-P (Xiamen) Precision Plastic Manufacturing Co., Ltd.**
Hai Cang Xing Gang Road,
Export Processing Zone,
4D Building, Xiamen, the PRC

**Hi-P (Dong Guan) Technology Co., Ltd.**
No. 683, Zhen'An Middle Road,
ShaTou South District,
Chang'An Town, DongGuan,
GuangDong, P.R.C. 523068

**Hi-P(Dong Guan)Precision Mold & Die Co.,Ltd.**
No. 683, Zhen'An Middle Road,
ShaTou South District,
Chang'An Town, DongGuan,
GuangDong, P.R.C. 523068

**SUBSIDIARIES - NORTH CHINA**

**Hi-P Tianjin Electronics Co., Ltd.**
6, Building C, Xiang-an Road,
Tianjin Technological and Economic
Development Area, Tianjin, the PRC

**Hi-P (Tianjin) Technology Co., Ltd.**
No. 80, the 9th Street, Tianjin
Technological and Economic
Development Area, Tianjin, the PRC

**Hi-P (Tianjin) Precision Mold & Die Co., Ltd.**
South Side, Building F, Fenghua
Industrial Park, No. 66 the 9th Avenue,
Tianjin Technological and Economic
Development Area, Tianjin, the PRC

**Qingdao Haier Hi-P Science Technology Co., Ltd.**
Haier Industrial Park,
1 Haier Road, Qingdao, the PRC

**SUBSIDIARIES - WEST CHINA**

**Hi-P (Chengdu) Precision PlasticManufacturing Co., Ltd.**
D.E.F. Area, 1st floor,
#11, Gaopeng Road,
Chengdu High-Tech Development Zone,
Chengdu, the PRC

**Hi-P (Chengdu) Mold Base Manufacturing Co., Ltd.**
B2, C, lst floor, #11, Gaopeng Road,
Chengdu High-Tech Development Zone,
Chengdu, the PRC

**SUBSIDIARIES – SOUTH AMERICA**

**High Precision Moulding and Tools, S.A. de C.V.**
Av. De la Exportacion
No. 317 Parque Industrial Guadalajara
Carreter Guadalajara -
Chapala Km 7.5 Las Pintas,
MP1O, El Salto, Jalisco, CO. 44690,
Mexico

**SUBSIDIARIES - NORTH AMERICA**

**Hi-P North America, Inc.**
2020 Hammond Drive, Schaumburg,
IL60173, USA

**SUBSIDIARIES - EUROPE**

**Hi-P Finland Oy**
Hornin Katu 7A, 1, SaIo 24100, Finland

**Hi-P GmbH**
Dachauer Str. 37, 80335 München,
Germany

**Hi-P Poland SP. ZO.O.**
Grabskiego Street 8/10,
55-011 Siechnice, Poland

**SUBSIDIARIES – OTHER**

**SHi-P Mauritius Ltd.**
Level 3 Alexander House,
35 Cybercity, Ebene Mauritius

**Hi-P Resources Ltd.**
Level 3 Alexander House,
35 Cybercity, Ebene Mauritius

**Hi-P (Thailand) Co., Ltd**
Amata City Industrial Estate, 7/132,
Moo 4, Tambon Mabyangporn,
Amphur Pluakdaeng, Rayong 21140,
Thailand

**ASSOCIATED CO.**

**Express Tech Mfg Pte. Ltd.**
5004 Ang Mo Kio Avenue 5,
#02-01 Tech Place II,
Singapore 569872

**Hi-Tec Precision Mould Pte. Ltd.**
Blk 2 Skytech #04-01,
Bukit Batok Street 24,
Singapore 659480

**Design Exchange Pte Ltd**
67 Ayer Rajah Crescent,
Unit 03-25/26, Singapore 139950

Hi-P International Limited (the "Company") is committed to achieving a high standard of corporate governance within the Group. The Company believes it has put in place effective self-regulatory corporate practices to protect its shareholders' interests and enhance long-term shareholders' value. The Board is pleased to report on the Company's corporate governance processes and activities as required by the Code of Corporate Governance 2005 (the "Code") prescribed by the Singapore Exchange Securities Trading Limited ("SGX-ST"). For easy reference, sections of the Code under discussion are specifically identified. However, this Report should be read as a whole as other sections of this Report may also have an impact on the specific disclosures.

**Board Matters**

**Principle 1: Board's Conduct of its Affairs**

The Board of Directors (the "Board") comprises the following members:

*Executive Directors*

Mr Yao Hsiao Tung
Mdm Wong Huey Fang

*Non-executive Directors*

Mr Yeo Tiong Eng
Mr Chester Lin Chien

*Independent Directors*

Dr Tan Khee Giap
Mdm Leong Lai Peng

Apart from its statutory duties and responsibilities, the Board performs the following functions:-

(a) Provide entrepreneurial leadership, set strategic aims, and ensure that the necessary financial and human resources are in place for the Group to meet its objectives;

(b) Establish a framework of prudent and effective controls which enables risk to be assessed and managed;

(c) Review management performance;

(d) Set the Group's values and standards, and ensure that obligations to shareholders and others are understood and met;

(e) Nomination of Directors to the Board;

(f) Appointment of key personnel;

(g) Review the financial performance of the Group and implementing policies relating to financial matters, which include risk management and internal control and compliance; and

(h) Assuming responsibility for corporate governance.

These functions are carried out either directly or through Board Committees such as the Nominating Committee, the Remuneration Committee and the Audit Committee.

Matters which are specifically reserved to the full Board for decision are those involving a conflict of interest for a substantial shareholder or a Director, material acquisitions and disposal of assets, corporate or financial restructuring, share issuance and dividends, and financial results and corporate strategies.

Formal Board meetings are held at least once every quarter to oversee the business affairs of the Group, and to approve, if applicable, any financial or business objectives and strategies. Ad-hoc meetings are convened when the circumstances require. The Company's Articles of Association allow a Board meeting to be conducted by way of tele-conference and video-conference.

During the financial year, the Board held nine meetings and the attendance of each Director at every Board and Board Committee meeting is as follows:-

| | Board | | Audit Committee | | Nominating Committee | | Remuneration Committee | |
|---|---|---|---|---|---|---|---|---|
| Name | No. of meetings held | No. of meetings attended | No. of meetings held | No. of meetings attended | No. of meetings held | No. of meetings attended | No. of meetings held | No. of meetings attended |
| Mr Yao Hsiao Tung***<br>(Executive Chairman) | 9 | 9 | – | – | – | – | 2 | 2 |
| Mdm Wong Huey Fang<br>(Executive Director) | 9 | 8 | – | – | – | – | – | – |
| Mr Yeo Tiong Eng<br>(Non-executive Director) | 9 | 9 | 4 | 4 | 2 | 1 | – | – |
| Mr Chester Lin Chien<br>(Non-executive Director) | 9 | 5 | – | – | – | – | – | – |
| Dr Tan Khee Giap<br>(Independent Director) | 9 | 9 | 4 | 4 | 2 | 2 | 2 | 1 |
| Mr Wong Meng Meng*<br>(Independent Director) | 7 | 5 | 3 | 3 | 2 | 2 | 1 | 1 |
| Mdm Leong Lai Peng**<br>(Independent Director) | 1 | 1 | 0 | 0 | 0 | 0 | 1 | 1 |

* *Resigned with effect from 31 October 2006*

** *Appointed with effect from 9 November 2006*

*** *Resigned with effect from 30 March 2007*

All Directors are provided with regular updates on changes in the relevant laws and regulations to enable them to make well-informed decision and to ensure that the Directors are competent in carrying out their expected roles and responsibilities.

**Principle 2: Board Composition and Guidance**

The Board comprises six Directors, two of whom are non-executive Directors and two are independent Directors. The independence of each Director will be reviewed annually by the Nominating Committee. The Nominating Committee adopts the Code definition of what constitutes an independent Director in its review.

The Board will constantly examine its size and, with a view to determining the impact of the number upon effectiveness, decide on what it considers an appropriate size for the Board, which facilitates effective decision making. The composition of the Board will be reviewed on an annual basis by the Nominating Committee to ensure that the Board has the appropriate mix of expertise and experience.

The Board, taking into account the nature of operations of the Company, considers its current size to be adequate for effective decision-making. Key information regarding the Directors' academic and professional qualifications and other appointments is set out on page 5 of the Annual Report.

**Principle 6: Access to Information**

To assist the Board in fulfilling its responsibilities, the Board is provided with management reports containing relevant background or explanatory information required to support the decision-making process. The Board is provided with complete, adequate and timely information prior to each Board meeting. The Board is also provided with management accounts of the Group's performance, position and prospects on a quarterly basis.

The Board has separate and independent access to senior management and the Company Secretary at all times. The Company Secretary attends all Board meetings and ensures that all Board procedures are followed. The Company Secretary also ensures that the Company complies with the requirements of the Companies Act and the SGX-ST.

If any of the Directors require independent professional advice in the furtherance of their duties, the cost of such professional advice will be borne by the Company.

**Principle 3: Chairman and Chief Executive Officer**

It is the view of the Board that it is in the best interest of the Group to adopt a single leadership structure, i.e. where the CEO and the Chairman of the Board is the same person, so as to ensure that the decision-making process of the Group would not be unnecessarily hindered.

The Board is of the view that there are sufficient safeguards and checks to ensure that the process of decision making by the Board is independent and based on collective decisions without any individual exercising any considerable concentration of power or influence. Further, all the Board committees are chaired by independent Directors.

The Group's Chairman and CEO is Mr Yao Hsiao Tung, who is responsible for the day-to-day operations of the Group, as well as monitoring the quality, quantity and timeliness of information flow between the Board and the management. Mr Yao is the founder of the Group and has played a key role in developing the Group's business. Through the Group's successful development in these few years, Mr Yao has demonstrated his vision, strong leadership and enthusiasm in this business.

**Board Committees**

**Nominating Committee ("NC")**

**Principle 4: Board Membership**
**Principle 5: Board Performance**

The current NC comprises the following 3 members, of whom 2 are independent Directors:

(a) Dr Tan Khee Giap (Chairman)
(b) Mr Yeo Tiong Eng; and
(c) Mdm Leong Lai Peng.

The Board has approved the written terms of reference of the NC. Its functions are as follows:-

(a) recommending and reviewing candidates for appointment to the Board;

(b) reviewing candidates nominated for appointment as senior management staff;

(c) reviewing and recommending to the Board on an annual basis, the Board structure, size and composition, taking into account the balance between executive and non-executive, independent and non-independent Directors and having regard at all times to the principles of corporate governance and the Code;

(d) procuring that at least one-third of the Board shall comprise independent Directors;

(e) making recommendations to the Board on continuation of service of any Director who has reached the age of 70;

(f) identifying and making recommendations to the Board as to the Directors who are to retire by rotation and to be put forward for re-election at each Annual General Meeting ("AGM") of the Company, having regard to the Directors' contribution and performance, including independent Directors;

(g) determining whether a Director is independent (taking into account the circumstances set out in the Code and other salient factors); and

(h) proposing a set of objective performance criteria to the Board for approval and implementation, to evaluate the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board.

The NC has adopted a formal process for the evaluation of the performance of the Board. In 2004, the Group implemented the Board-approved evaluation process and performance criteria to assess the performance of the Board. The performance criteria includes an evaluation of the size and composition of the Board, the Board's access to information, accountability, Board processes and Board performance in relation to discharging its principal responsibilities in terms of the financial indicators as set out in the Code.

The NC assessed the Board's performance as a whole in FY2006.

The assessment process involves and includes input from the Board members, applying the performance criteria recommended by the NC and approved by the Board. The Directors' input are collated and reviewed by the Chairman of the NC, who presents a summary of the overall assessment to the NC for review. Areas where the Board's performance and effectiveness could be enhanced and recommendations for improvement are then submitted to the Board for discussion and for implementation.

All Directors are subject to the provisions of the Company's Articles of Association whereby one-third of the Directors are required to retire and subject themselves to re-election by shareholders at every AGM.

The NC recommended to the Board that Mdm Wong Huey Fang, Mr Chester Lin Chien and Mdm Leong Lai Peng be nominated for re-appointment at the forthcoming AGM.

In making the recommendation, the NC had considered the Directors' overall contribution and performance.

Where a vacancy arises under any circumstance, or where it is considered that the Board would benefit from the services of a new director with particular skills, the Nominating Committee, in consultation with the Board determines the selection criteria and selects candidates with the appropriate expertise and experience for the position.

**Remuneration Committee ("RC")**

**Principle 7: Procedures for Developing Remuneration Policies**
**Principle 8: Level and Mix of Remuneration**
**Principle 9: Disclosure of Remuneration**

The current RC comprises the following 3 members, all of whom are non-executive Directors:

(a) Mdm Leong Lai Peng (Chairman);
(b) Dr Tan Khee Giap; and
(c) Mr Chester Lin Chien

The Board has approved the written terms of reference of the RC. Its functions are as follows:-

(a) recommending to the Board a framework of remuneration for the Board and key executives of the Group (as required by law and/or the Code) which shall include the disclosure of details of the Company's remuneration policy, level and mix of remuneration and procedure for setting remuneration and details of the specific remuneration packages such as Director's fees, salaries, allowances, bonuses, options and benefits-in-kind;

(b) proposing to the Board appropriate and meaningful measures for assessing the executive Directors' performance; and

(c) considering the eligibility of Directors for benefits under long-term incentive schemes.

In carrying out the above, the RC may obtain independent external legal and other professional advice as it deems necessary. The expenses of such advice shall be borne by the Company.

The Company sets remuneration packages which:

(a) align interests of executive directors with those of shareholders;

(b) link rewards to corporate and individual performance;

(c) are competitive and sufficient to attract, retain and motivate Directors and senior management with adequate experience and expertise to manage the business and operations of the Group.

The remuneration paid and payable to the Directors and executive officers during the financial year ended 31 December 2006 are as follows:

| Remuneration Bands | Salary % | Performance Bonus % | Director's fees % | Others % | Total % |
|---|---|---|---|---|---|
| Directors | | | | | |
| S$500,000 and above | | | | | |
| Yao Hsiao Tung | 21 | 76 | 3 | – | 100 |
| S$250,000 – S$500,000 | | | | | |
| Wong Huey Fang | 57 | 33 | 10 | – | 100 |
| Below S$250,000 | | | | | |
| Yeo Tiong Eng | – | – | 100 | – | 100 |
| Dr Tan Khee Giap | – | – | 100 | – | 100 |
| Chester Lin Chien | – | – | 100 | – | 100 |
| Leong Lai Peng** | – | – | 100 | – | 100 |
| Wong Meng Meng* | – | – | 100 | – | 100 |

* *Resigned with effect from 31 October 2006*

** *Appointed with effect from 9 November 2006*

| Remuneration Bands | Salary % | Performance Bonus % | Others % | Total % |
|---|---|---|---|---|
| Executive Officers | | | | |
| S$500,001 – S$750,000 | | | | |
| Gerhard J. Zebe* | 60 | 40 | – | 100 |
| S$250,000 – S$500,000 | | | | |
| Huang Wook Teik** | 100 | 0 | – | 100 |
| Samuel Yuen Chung Sang*** | 100 | 0 | – | 100 |
| Gary Ho Hock Yong | 74 | 26 | – | 100 |
| Ang Lien Ping | 81 | 19 | – | 100 |
| Alan Ong Joo Siew**** | 90 | 10 | – | 100 |
| Chan Earn Meng | 85 | 15 | – | 100 |

* *Resigned with effect from 31 March 2007*

** *Resigned with effect from 10 June 2006*

*** *Appointed with effect from 26 June 2006*

**** *Appointed with effect from 3 October 2005*

No Director is involved in determining his own remuneration. The remuneration of the non-executive and independent Directors is in the form of a fixed fee. The remuneration of the non-executive and independent Directors will be subject to approval at the AGM.

The Executive Chairman and CEO has a service agreement with the Company. His compensation consists of salary, bonus and performance award that is dependent on the Group's performance.

Save for above-mentioned, none of the employees who are immediate family members of a Director receives remuneration exceeding S$150,000 during the year.

The Company has a share option scheme known as Hi-P Employee Share Option Scheme (the "ESOS") which was approved by shareholders of the Company on 7 October 2003. The ESOS complies with the relevant rules as set out in Chapter 8 of the Listing Manual. The ESOS will provide eligible participants with an opportunity to participate in the equity of the Company and to motivate them towards better performance through increased dedication and loyalty. The ESOS is administered by the RC. Further information on the share option scheme can be found on pages 20 to 22 of the Annual Report.

**Audit Committee ("AC")**

**Principle 11: Audit Committee**

The current AC comprises the following 3 members, all non-executive, the majority of whom, including the Chairman, are independent:

(a) Dr Tan Khee Giap (Chairman);

(b) Mr Yeo Tiong Eng; and

(c) Mdm Leong Lai Peng.

The Board has approved the written terms of reference of the AC. Its functions are as follows:-

(a) reviewing and evaluating financial and operating results and accounting policies;

(b) reviewing audit plan of external auditors, their evaluation of the system of internal accounting controls and their audit report;

(c) reviewing the Group's financial results and the announcements before submission to the Board for approval;

(d) reviewing the assistance given by the management to external auditors;

(e) considering the appointment/ re-appointment of external auditors;

(f) reviewing interested person transactions; and

(g) other functions as required by law or the Code.

The AC meets regularly and also holds informal meetings and discussions with the management from time to time. The AC has full discretion to invite any Director or executive officer to attend its meetings.

The AC has been given full access to and is provided with the cooperation of the Company's management. In addition, the AC has independent access to the external auditors. The AC meets with the external auditors without the presence of management to review matters that might be raised privately. The AC has reasonable resources to enable it to discharge its functions properly.

The AC has reviewed the volume of non-audit services to the Group by the external auditors, and being satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors, is pleased to recommend their re-appointment.

The AC is currently reviewing the arrangement by which the employees of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, within the Group, with the objectives of ensuring that arrangements are put in place for independent investigation of such matters and for appropriate follow up actions as and when the need arises.

**Principle 12: Internal Controls**

The Group's internal controls and systems are designed to provide reasonable, but not absolute assurance to the integrity and reliability of the financial information and to safeguard and maintain the accountability of the assets.

The Board believes that, in the absence of any evidence to the contrary, the system of internal controls maintained by the Group's management and that was in place throughout the year and up to the date of this Report, is adequate to meet the needs of the Group in its current business environment.

**Principle 13: Internal Audit**

The internal audit function has been outsourced to Messrs PricewaterhouseCoopers ("internal audit managers"). The internal audit function reports directly to the AC on audit matters and to the CEO on administrative matters.

The objective of the internal audit function is to provide independent and reasonable assurance to the AC and management that the Group's risk management, controls and governance processes are adequate and effective.

The AC has reviewed with the internal audit managers their audit plans, their evaluation of the system of internal controls, their audit findings and management's responses to those findings; the effectiveness of material internal controls, including financial, operational and compliance controls and overall risk management of the Company and the Group. The AC is satisfied that the internal audit is adequately resourced and has appropriate standing within the Group.

**Communication with Shareholders**

**Principle 10: Accountability and Audit**
**Principle 14: Communication with Shareholders**
**Principle 15: Greater Shareholder Participation**

The Company recognises that effective communication can highlight transparency and enhance accountability to its shareholders. The Company provides information to its shareholders via SGXNET announcements, news releases and the Company's website. Price-sensitive information is publicly released on an immediate basis where required under the Listing Manual. Where an immediate announcement is not possible, the announcement is made as soon as possible to ensure that shareholders and the public have a fair access to the information.

The AGM of the Company is a principal forum for dialogue and interaction with all shareholders. All shareholders will receive the Annual Report and the notice of AGM. At the AGM, shareholders will be given the opportunity to voice their views and to direct questions regarding the Group to the Directors including the chairpersons of each of the Board committees. The external auditors are also present to assist the Directors in addressing any relevant queries from the shareholders.

The Company ensures that there are separate resolutions at general meetings on each distinct issue.

The Company's Articles of Association allow a member of the Company to appoint one or two proxies to attend and vote at general meetings.

**Risk Management**
**(Listing Manual Rule 1207(4)(b)(iv)**

The Company does not have a Risk Management Committee. However, the management regularly reviews the Company's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. The management reviews all significant control policies and procedures and highlights all significant matters to the Directors and the AC.

**Securities Transactions**
**(Listing Manual Rule 1207(18))**

The Group has adopted the SGX-ST's Best Practices Guide with respect to dealings in securities by the Directors and its executive officers. Directors, management and officers of the Group who have access to price-sensitive, financial or confidential information are not permitted to deal in the Company's shares during the periods commencing two weeks before the announcement of the Company's financial statements for each of the first three quarters of its financial year, or one month before the announcement of the Company's financial statement for the financial year end, as the case may be, and ending on the date of announcement of the relevant results, or when they are in possession of unpublished price-sensitive information on the Group. To provide further guidance to employees on dealings in the Company's shares, the Company has adopted a code of conduct on transactions in the Company's shares. The code of conduct is modeled after the Best Practices Guide with some modifications.

**Material Contracts**
**(Listing Manual Rule 1207(8))**

Save for the service agreement between Mr Yao Hsiao Tung and the Company, there were no material contracts of the Company or its subsidiaries involving the interest of the Chief Executive Officer or any Director or controlling shareholders subsisting at the end of the financial year ended 2006.

**Interested Person Transactions**
**(Listing Manual Rule 907)**

The Company has established procedures to ensure that all transactions with interested persons are reported on a timely manner to the AC and that the transactions are carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders.

The aggregate value of interested person transactions entered into during the financial year under review is as follows:

| Name of interested person | Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than $100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920) | Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than $100,000) |
|---|---|---|
| Molex Incorporated and its group of companies | | |
| – Sales | $218,203 | N.A. |
| – Purchases | $2,193,746 | N.A. |

# *Annual Financial Statements*

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The directors are pleased to present their report to the members together with the audited consolidated financial statements of Hi-P International Limited ("the Company") and its subsidiaries (collectively, "the Group") and the balance sheet of the Company for the financial year ended 31 December 2006.

## 1. Directors

The directors of the Company in office at the date of this report are:

| | |
|---|---|
| Yao Hsiao Tung | (Chairman and Chief Executive Officer) |
| Wong Huey Fang | |
| Yeo Tiong Eng | |
| Dr Tan Khee Giap | |
| Chester Lin Chien | |
| Leong Lai Peng | (Appointed on 9 November 2006) |

## 2. Arrangements to enable directors to acquire shares and debentures

Except as described in paragraph 5 below, neither at the end of nor at any time during the financial year, was the Company a party to any arrangement whose objects are, or one of whose objective is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

## 3. Directors' interests in shares and debentures

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Cap.50, an interest in shares and share options of the Company and related corporations (other than wholly-owned subsidiaries), as stated below:

| | **Direct interest as at** | | **Deemed interest as at** | |
|---|---|---|---|---|
| | **1 January 2006 or date of appointment** | **31 December 2006** | **1 January 2006 or date of appointment** | **31 December 2006** |
| **Hi-P International Limited** | | | | |
| ***Ordinary shares*** | | | | |
| Yao Hsiao Tung | 485,918,800 | 485,708,400 | – | – |
| Wong Huey Fang | – | – | 485,918,800 | 485,708,400 |
| Yeo Tiong Eng | 400,000 | 400,000 | – | – |
| Dr Tan Khee Giap | 550,000 | 550,000 | – | – |
| Chester Lin Chien | 1,000,000 | 1,000,000 | – | – |
| Leong Lai Peng | – | – | – | – |
| ***Options to subscribe for ordinary shares*** | | | | |
| Yao Hsiao Tung | 1,300,000 | 1,300,000 | 300,000 | 300,000 |
| Wong Huey Fang | 300,000 | 300,000 | 1,300,000 | 1,300,000 |

**3. Directors' interests in shares and debentures (cont'd)**

There was no change in any of the above-mentioned interests between the end of the financial year and 21 January 2006.

By virtue of Section 7 of the Singapore Companies Act, Cap. 50, Mr Yao Hsiao Tung is deemed to have an interest in shares of the subsidiaries of the Company.

Except as disclosed in this report, no director who held office at the end of the financial year had interests in any shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

**4. Directors' contractual benefits**

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

**5. Share options**

The Hi-P Employee Share Option Scheme ("the Option Scheme") was approved and adopted at the Company's Extraordinary General Meeting held on 7 October 2005. The Option Scheme applies to executive directors, employees of the Group, controlling shareholders and their associates. The Option Scheme is administered by the Remuneration Committee, comprising Messrs Leong Lai Peng (Chairman) (Appointed 9 November 2006), Chester Lin Chien (Appointed 15 December 2006) and Dr Tan Khee Giap.

Other information regarding the Option Scheme is set out below:

(i) The exercise price of the options is determined at the average of the last dealt price for the Company's shares on the Singapore Exchange Securities Trading Limited (SGX-ST) on the five business days immediately preceding the date of grant of such options.

(ii) 50% of the options vest one year after the grant date, and the remaining 50% vest two years after the grant date.

(iii) The options expire 8 years after the grant date, unless they have been cancelled or have lapsed prior to that date.

During the financial year ended 31 December 2006:

- The Company has granted 2,709,000 share options under the Option Scheme. These options expire on 25 April 2014. 50% of the options are exercisable after one year and the remaining 50% are exercisable after two years; and

- 25,000 ordinary shares were issued at a weighted average exercise price of S$1.11, upon the exercise of options granted pursuant to the Option Scheme.

5. **Share options (cont'd)**

Details of all the options to subscribe for ordinary shares of the Company pursuant to the Option Scheme as at 31 December 2006 are as follows:

| Date of grant of options | Exercise price per share | Options outstanding as at 1 January 2006 | Options granted | Options cancelled/ lapsed | Options exercised | Options outstanding as at 31 December 2006 | Exercise period |
|---|---|---|---|---|---|---|---|
| 19/07/2004 | $1.39 | 3,438,000 | – | (440,000) | (25,000) | 2,973,000 | 20/07/ 2005 to 19/07/2012 |
| 22/11/2004 | $1.73 | 90,000 | – | (50,000) | – | 40,000 | 22/11/ 2005 to 21/11/2012 |
| 24/02/2005 | $1.54 | 50,000 | – | (40,000) | – | 10,000 | 24/02/2006 to 23/02/2013 |
| 12/05/2005 | $1.47 | 100,000 | – | (80,000) | – | 20,000 | 12/05/2006 to 11/05/2013 |
| 12/08/2005 | $1.48 | 80,000 | – | – | – | 80,000 | 12/08/2006 to 11/08/2013 |
| 30/11/2005 | $1.63 | 85,000 | – | (20,000) | – | 65,000 | 30/11/2006 to 29/11/2013 |
| 25/04/2006 | $1.11 | – | 2,709,000 | (293,000) | – | 2,416,000 | 26/04/2007 to 25/04/2014 |

25,000 ordinary shares were issued at $1.11 upon the exercise of options granted pursuant to the Option Scheme during the financial year ended 31 December 2006.

Except as disclosed above, there were no unissued shares of the Company or its subsidiaries under options granted by the Company or its subsidiaries as at the end of the financial year.

Details of the options to subscribe for ordinary shares of the Company granted to directors of the Company pursuant to the Option Scheme are as follows:

| Name of Director | Options granted for financial year ended 31 December 2006 | Aggregate options granted since commencement of scheme to 31 December 2006 | Aggregate options exercised since commencement of scheme to 31 December 2006 | Aggregate options outstanding as at 31 December 2006 |
|---|---|---|---|---|
| Yao Hsiao Tung | – | 1,300,000 | – | 1,300,000 |
| Wong Huey Fang | – | 300,000 | – | 300,000 |

Approval to grant share options of 1,000,000 and 248,000 to Mr Yao Hsiao Tung and Mdm Wong Huey Fang respectively was obtained at the extraordinary general meeting on 25 April 2006. Upon the request of the offerees, the letter of offer was not issued and any issue of options thereunder will require a new mandate from shareholders at a general meeting.

**5. Share options (cont'd)**

Since the commencement of the Option Scheme till the end of the financial year:

- No options have been granted to the controlling shareholders of the Company and their associates;
- No participant other than the two directors mentioned above has received 5% or more of the total options available under the Option Scheme;
- No options have been granted to directors and employees of the Company and its subsidiaries;
- No options that entitle the holder to participate, by virtue of the options, in any share issue of any other corporation have been granted; and
- No options have been granted at a discount.

**6. Audit committee**

The Audit Committee performed the functions in accordance with Section 201B(5) of the Singapore Companies Act, Cap. 50. The functions performed are disclosed in the Report on Corporate Governance.

**7. Auditors**

Ernst & Young have expressed their willingness to accept reappointment as auditors.

On behalf of the board of directors,

**Yao Hsiao Tung**
Chairman and Chief Executive Officer

**Yeo Tiong Eng**
Director

19 March 2007

We, Yao Hsiao Tung and Yeo Tiong Eng, being two of the directors of Hi-P International Limited, do hereby state that, in the opinion of the directors,

(i) the accompanying balance sheets, consolidated profit and loss account, statements of changes in equity and consolidated cash flow statement together with notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2006 and of the results of the business, changes in equity and cash flows of the Group for the year ended on that date, and

(ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the board of directors,

**Yao Hsiao Tung**
Chairman and Chief Executive Officer

**Yeo Tiong Eng**
Director

19 March 2007

# *Auditors' Report*

***to the Members of Hi-P International Limited and Subsidiaries***

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Hi-P International Limited ("the Company") and its subsidiary companies (collectively, "the Group"), which comprise the balance sheets of the Group and Company as at 31 December 2006, statement of changes in equity, the profit and loss account and cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Directors' Responsibility for the Financial Statements*

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Cap. 50 ("the Act") and Singapore Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion,

(a) the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2006 and the results, changes in equity and cash flows of the Group for the financial year ended on that date; and

(b) the accounting and other records required by the Act to be kept by the Company and those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

ERNST & YOUNG
Certified Public Accountants
Singapore

19 March 2007

# *Consolidated Profit and Loss Accounts*

***for the year ended 31 December 2006***

| | Note | 2006<br>$'000 | 2005<br>$'000 |
|---|---|---|---|
| **Revenue** | 3 | 839,081 | 632,954 |
| Cost of sales | | (717,762) | (491,078) |
| **Gross profit** | | 121,319 | 141,876 |
| Other operating income | 4 | 6,993 | 5,960 |
| Selling expenses | | (8,492) | (6,535) |
| Administrative expenses | | (55,785) | (47,901) |
| **Profit from operations** | 5 | 64,035 | 93,400 |
| Financial expenses | 7 | (1,556) | (977) |
| Financial income | 7 | 874 | 857 |
| Foreign exchange loss, net | | (1,860) | (39) |
| Share of results of associates | | 184 | (114) |
| **Profit before tax** | | 61,677 | 93,127 |
| Tax expense | 8 | (3,886) | (4,999) |
| **Profit for the year** | | 57,791 | 88,128 |
| **Attributable to :** | | | |
| Equity holders of the Company | | 57,461 | 89,022 |
| Minority interests | | 330 | (894) |
| | | 57,791 | 88,128 |
| **Earnings per share (cents)** | 9 | | |
| Basic | | 6.48 | 10.04 |
| Diluted | | 6.48 | 9.99 |

*The accompanying accounting policies and explanatory notes form an integral part of the financial statements.*

# *Balance Sheets*

***as at 31 December 2006***

| | Note | Group 2006 $'000 | Group 2005 $'000 | Company 2006 $'000 | Company 2005 $'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 10 | 272,549 | 236,476 | 28,232 | 27,573 |
| Investment in subsidiaries | 11 | – | – | 140,256 | 110,632 |
| Investment in associates | 12 | 2,726 | 2,450 | 1,478 | 1,384 |
| Amounts due from subsidiaries | 17 | – | – | 11,251 | 10,639 |
| Other non-current asset | 13 | 12 | 12 | 12 | 12 |
| Deferred tax asset | 25 | 252 | 679 | – | – |
| **Current assets** | | | | | |
| Inventories | 14 | 118,496 | 74,291 | 8,373 | 6,556 |
| Trade and other receivables | 15 | 228,032 | 174,586 | 12,674 | 13,978 |
| Notes receivables | 16 | 673 | 1,992 | – | – |
| Prepayments | | 1,812 | 1,804 | 85 | 80 |
| Amounts due from subsidiaries | 17 | – | – | 26,480 | 24,929 |
| Amounts due from minority shareholders of subsidiaries | 18 | 840 | 993 | – | – |
| Cash and fixed deposits | 19 | 33,244 | 73,197 | 2,115 | 32,514 |
| | | 383,097 | 326,863 | 49,727 | 78,057 |
| **Current liabilities** | | | | | |
| Trade and other payables | 20 | 208,403 | 165,192 | 5,468 | 12,452 |
| Accrued operating expenses | | 17,487 | 19,098 | 5,955 | 7,632 |
| Amounts due to subsidiaries | 21 | – | – | 61,322 | 55,154 |
| Amounts due to minority shareholders of subsidiaries | 22 | 4,399 | 1,131 | – | – |
| Lease obligations | 23 | 61 | 362 | 55 | 228 |
| Interest-bearing loans and borrowings | 24 | 25,212 | 4,856 | 6,200 | 694 |
| Provision for income tax | | 1,646 | 5,020 | 396 | 275 |
| | | 257,208 | 195,659 | 79,396 | 76,435 |
| **Net current assets/(liabilities)** | | 125,889 | 131,204 | (29,669) | 1,622 |

**Balance Sheets as at 31 December 2006 (cont'd)**

| | Note | Group 2006 $'000 | Group 2005 $'000 | Company 2006 $'000 | Company 2005 $'000 |
|---|---|---|---|---|---|
| **Non-current liabilities** | | | | | |
| Amounts due to minority shareholders of subsidiaries | 22 | – | 4,028 | – | – |
| Lease obligations | 23 | 158 | 227 | 114 | 170 |
| Deferred tax liabilities | 25 | 2,530 | 2,786 | 2,418 | 2,774 |
| **Net assets** | | 398,740 | 363,780 | 149,028 | 148,918 |
| **Equity attributable to equity holders of the Company** | | | | | |
| Share capital | 26 | 119,725 | 44,357 | 119,725 | 44,357 |
| Share premium | | – | 75,242 | – | 75,242 |
| Other reserves | 27 | 6,745 | 19,162 | 2,572 | 2,171 |
| Accumulated profits | | 269,777 | 223,016 | 26,731 | 27,148 |
| | | 396,247 | 361,777 | 149,028 | 148,918 |
| Minority interests | | 2,493 | 2,003 | – | – |
| **Total Equity** | | 398,740 | 363,780 | 149,028 | 148,918 |

*The accompanying accounting policies and explanatory notes form an integral part of the financial statements.*

# *Consolidated Statement of Changes in Equity*

***as at 31 December 2006***

| Group | Share capital (Note 26) $'000 | Share premium $'000 | Other Reserves (Note 27) $'000 | Accumulated profits $'000 | Minority interests $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|
| | **Attributable to equity holders of the Company** | | | | | |
| **Balance at 31 December 2004** | 44,350 | 75,041 | 6,821 | 142,761 | 2,245 | 271,218 |
| Profit for the year | – | – | – | 89,022 | (894) | 88,128 |
| Equity compensation expense | – | – | 1,396 | – | – | 1,396 |
| Transfer to other reserves | – | – | 1,666 | (1,666) | – | – |
| Currency translation differences | – | – | 9,371 | (5) | 17 | 9,383 |
| Dividends on ordinary shares (Note 29) | – | – | – | (7,096) | (1,054) | (8,150) |
| Reclassification | – | – | (92) | – | 92 | – |
| Exercise of employee share options (Note 27d) | 7 | 201 | – | – | – | 208 |
| Capital contribution | – | – | – | – | 1,597 | 1,597 |
| **Balance at 31 December 2005** | 44,357 | 75,242 | 19,162 | 223,016 | 2,003 | 363,780 |
| Profit for the year | – | – | – | 57,461 | 330 | 57,791 |
| Equity compensation expense (Note 27d) | – | – | 492 | – | – | 492 |
| Transfer to other reserves | – | 91 | 3,544 | (3,635) | – | – |
| Increase in reserve | – | – | 33 | – | 229 | 262 |
| Currency translation differences | – | – | (16,486) | 32 | 22 | (16,432) |
| Dividends on ordinary shares (Note 29) | – | – | – | (7,097) | (91) | (7,188) |
| Exercise of employee share options (Note 26) | 1 | 34 | – | – | – | 35 |
| Transfer of share premium reserves to share capital (Note 26) | 75,367 | (75,367) | – | – | – | – |
| **Balance at 31 December 2006** | 119,725 | – | 6,745 | 269,777 | 2,493 | 398,740 |

*The accompanying accounting policies and explanatory notes form an integral part of the financial statements.*

# *Consolidated Cash Flow Statement*

*for the year ended 31 December 2006*

| | 2006<br>$'000 | 2005<br>$'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before tax | 61,677 | 93,127 |
| Adjustment for: | | |
| Allowance for doubtful trade receivables written back | (917) | (1,183) |
| Allowance for/(write back of) allowance for doubtful receivables written back for amount due from minority shareholders of subsidiaries | 120 | (137) |
| Property, plant and equipment written off | 73 | – |
| Equity compensation expense | 492 | 1,396 |
| Gain/(loss) on disposal of property, plant and equipment | 261 | (1,143) |
| Depreciation of property, plant and equipment | 33,134 | 25,755 |
| Interest expense | 1,556 | 977 |
| Interest income | (874) | (857) |
| Share of results of associates | (184) | 114 |
| Unrealised exchange (loss)/gain | (15,058) | 1,394 |
| Operating profit before working capital changes | 80,281 | 119,443 |
| Decrease/(increase) in: | | |
| Inventories | (44,396) | (14,615) |
| Trade receivables | (49,939) | (52,636) |
| Notes receivables | 1,319 | (1,152) |
| Other receivables, deposits and prepayments | (2,599) | (2,654) |
| Increase/(decrease) in: | | |
| Trade payables | 39,614 | 31,495 |
| Other payables and accruals | (835) | (4,698) |
| Due from/(to) related parties (trade), net | 351 | 5,574 |
| Cash flows generated from operations | 23,796 | 80,757 |
| Income taxes paid | (7,088) | (1,451) |
| **Net cash generated from operating activities** | 16,708 | 79,306 |
| | | |
| **Cash flows from investing activities** | | |
| Acquisition of equity interest in an associates | (94) | (481) |
| Interest income received | 874 | 857 |
| Proceeds from disposal of property, plant and equipment | 15,509 | 3,064 |
| Purchase of property, plant and equipment (Note) | (83,680) | (73,179) |
| **Net cash used in investing activities** | (67,391) | (69,739) |

# *Consolidated Cash Flow Statement*

***for the year ended 31 December 2006***

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| **Cash flows from financing activities** | | |
| Dividends paid on ordinary shares | (7,097) | (7,096) |
| Interest expense paid | (1,556) | (977) |
| Proceeds/(repayment of) loans and borrowings | 20,355 | (14,783) |
| Repayments of finance lease obligation | (370) | (1,867) |
| Proceeds from issuance of shares | 35 | 208 |
| **Net cash generated from/(used in) financing activities** | 11,367 | (24,515) |
| **Net decrease in cash and cash equivalents** | (39,316) | (14,948) |
| Cash and cash equivalents at beginning of year | 73,197 | 88,195 |
| Effects of exchange rate changes on opening cash and cash equivalents | (637) | (50) |
| **Cash and cash equivalents at end of year (Note 19)** | 33,244 | 73,197 |

**Note to the Consolidated Cash Flow Statement**

***Purchase of property, plant and equipment***

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Current year additions | 86,500 | 86,220 |
| Payable to creditors | (21,936) | (22,505) |
| | 64,564 | 63,715 |
| Payments for prior year | 19,116 | 9,464 |
| Net cash outflow for purchase | 83,680 | 73,179 |

*The accompanying accounting policies and explanatory notes form an integral part of the financial statements.*

## 1. Corporate information

Hi-P International Limited (“the Company”) is a limited liability company, which is incorporated in the Republic of Singapore and publicly traded on the Singapore Exchange.

The registered office and principal place of business of the Company is located at 11 International Business Park, Jurong East, Singapore 609926.

The principal activities of the Company are design and fabrication of mold (“MDF”), precision plastic injection molding (“PPIM”), assembly, provision of ancillary value-added services (mainly surface finishing services) and precision metal stamping. The principal activities of the subsidiaries are as shown in Note 11 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

## 2. Significant accounting policies

### 2.1 Basis of preparation of financial statements

The consolidated financial statements of the Group and balance sheet of the Company have been prepared in accordance with Singapore Financial Reporting Standards (“FRS”).

The financial statements have been prepared on a historical cost basis, except for those as disclosed in the accounting policies below. The financial statements are presented in Singapore Dollars (“$” or “SGD”) and all values are rounded to the nearest thousand ($’000) except when otherwise indicated.

### 2.2 Changes in accounting policies

The accounting policies have been consistently applied by the Group and the Company and are consistent with those used in the previous financial year, except for the changes in accounting policies discussed below.

#### a) Adoption of new FRS

On 1 January 2006, the Group and the Company adopted FRS 104, Insurance Contracts mandatory for annual financial periods beginning on or after 1 January 2006. The adoption of the standard did not have any financial impact on the financial statements.

#### b) Adoption of revised FRS

In addition, the Group adopted the following revised standards which did not result in any significant change in accounting policies.

- FRS 21, The Effect of Changes in Foreign Exchange Rates
- FRS 39, Financial Instruments: Recognition and Measurement

**2. Significant accounting policies (cont'd)**

**2.2 Changes in accounting policies**

**c) FRS and INT FRS not yet effective**

The Group and the Company have not applied the following FRS and INT FRS that have been issued but not yet effective:

| | | | *Effective date (Annual periods beginning on or after)* |
|---|---|---|---|
| FRS 1 | : | Amendment to FRS 1 (revised), Presentation of financial statements (Capital Disclosures) | 1 January 2007 |
| FRS 40 | : | Investment Property | 1 January 2007 |
| FRS 107 | : | Financial Instruments: Disclosures | 1 January 2007 |
| INT FRS 107 | : | Applying the Restatement Approach under FRS 29, Financial Reporting in Hyperinflationary Economies | 1 March 2006 |
| INT FRS 108 | : | Scope of FRS 102, Share-based Payment | 1 May 2006 |
| INT FRS 109 | : | Reassessment of Embedded Derivatives | 1 June 2006 |
| INT FRS 110 | : | Interim Financial Reporting and Impairment | 1 November 2006 |

The directors expect that the adoption of the above pronouncements will have no material impact to the financial statements in the period of initial application, except for FRS 107 and the amendment to FRS 1 as indicated below.

**FRS 107, Financial Instruments: Disclosures and amendment to FRS 1 (revised), Presentation of financial statements (Capital Disclosures)**

FRS 107 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. The amendment to FRS 1 requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. The Group will apply FRS 107 and the amendment to FRS 1 from annual period beginning 1 January 2007.

**2.3 Significant accounting estimates**

Estimates, assumptions concerning the future are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**2. Significant accounting policies (cont'd)**

**2.3 Significant accounting estimates**

**i) Depreciation of plant and machinery**

The cost of plant and machinery for the manufacture of electronic components is depreciated on a straight-line basis over the plant and machinery's useful lives. Management estimates the useful lives of these plant and machinery to be within 3 to 10 years. These are common life expectancies applied in the industry. The carrying amount of the Group's plant and machinery at 31 December 2006 was $203,815,000 (2005: $179,423,000). Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

**ii) Income taxes**

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's tax payables at 31 December 2006 was $4,176,000 (2005: $7,806,000).

**2.4 Functional and foreign currency**

**a) Foreign currency transactions**

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in the profit and loss account except for exchange differences arising on monetary items that form part of the Group's net investment in foreign subsidiaries, which are recognised initially in a separate component of equity as foreign currency translation reserve in the consolidated balance sheet and recognised in the consolidated profit and loss account on disposal of the subsidiary.

**b) Foreign currency translation**

The results and financial position of foreign operations are translated into SGD using the following procedures:

- Assets and liabilities for each balance sheet presented are translated at the rate ruling at that balance sheet date; and
- Income and expenses for each profit and loss account are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions.

**2. Significant accounting policies (cont'd)**

**2.4 Functional and foreign currency**

**b) Foreign currency translation**

All resulting exchange differences are recognised in a separate component of equity as foreign currency translation reserve.

On disposal of a foreign operation, the cumulative amount of exchange differences deferred in equity relating to that foreign operation is recognised in the profit and loss account as a component of the gain or loss on disposal.

**2.5 Subsidiaries**

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. The Group generally has such power when it, directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less any impairment losses.

**2.6 Principles of consolidation of financial statements**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Acquisitions of subsidiaries are accounted for using the purchase method. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. They are presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity, and are separately disclosed in the consolidated profit and loss account.

**2.7 Associates**

An associate is an entity, not being a subsidiary or a joint venture, in which the Group has significant influence. This generally coincides with the Group having 20% or more of the voting power, or has representation on the board of directors.

**2. Significant accounting policies (cont'd)**

**2.7 Associates**

The Group's investments in associates are accounted for using the equity method. Under the equity method, the investment in associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The Group's share of the profit or loss of the associate is recognised in the consolidated profit and loss account. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in the associate. The associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

Goodwill relating to an associate is included in the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The most recent available audited financial statements of the associates are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not co-terminous with those of the Group, the share of results is arrived at from the last audited financial statements available and unaudited management financial statements to the end of the accounting period. Consistent accounting policies are applied for like transactions and events in similar circumstances.

In the Company's separate financial statements, investments in associates are accounted for at cost less impairment losses.

**2.8 Related parties**

A related party is a company, not being a subsidiary or an associate, in which the shareholders or directors of the Company have an equity interest or exercise control or significant influence over the operations of the Company.

**2.9 Property, plant and equipment**

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of an asset begins when it is available for use and is computed on a straight-line basis over the estimated useful life of the asset as follows:

| | |
|---|---|
| Factory buildings and leasehold improvements | 20 - 57 years |
| Renovation | 3 - 10 years |
| Plant and machinery | 3 - 10 years |
| Motor vehicles | 5 - 6 years |
| Office equipment, furniture and fittings | 3 - 10 years |

Construction-in-progress are not depreciated as these assets are not available for use.

**2. Significant accounting policies (cont'd)**

**2.9 Property, plant and equipment**

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the profit and loss account in the year the asset is derecognised.

**2.10 Intangible asset**

**a) Club membership**

Club membership is measured at cost less accumulated amortisation and any impairment loss.

**b) Research and development costs**

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year. Upon completion, development costs are amortised over the estimated useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

**2.11 Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the profit and loss account as 'other operating expenses'.

## 2. Significant accounting policies (cont'd)

### 2.11 Impairment of non-financial assets

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses recognised for an asset may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Reversal of an impairment loss is recognised in the profit and loss account. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### 2.12 Financial assets

Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are initially recognised at fair value, plus directly attributable transaction costs and subsequently carried at amortised cost using the effective interest method. Gains and losses are recognised in profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

### 2.13 Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in the profit and loss account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

**2. Significant accounting policies (cont'd)**

**2.14 Inventories**

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted as follows:

- Raw materials - purchase cost on a weighted average basis;

- Work-in-progress and finished goods - cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

**2.15 Trade and other receivables**

Trade and other receivables, including notes receivables, amounts due from subsidiaries, associates, related companies and loans to related companies are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.12.

An allowance is made for uncollectible amounts when there is objective evidence that the Group will not be able to collect the debt. Bad debts are written off when identified. Further details on the accounting policy for impairment of financial assets are stated in Note 2.13.

In the Company's financial statements, interest-free loans to subsidiaries are stated at fair value at inception. The difference between the fair value and the loan amount at inception is recognised as additional investments in subsidiaries in the Company's financial statements. Subsequently, these loans are measured at amortised cost using the effective interest method. The unwinding of the difference is recognised as interest income in the profit and loss account over the expected repayment period.

**2.16 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, cash at banks, fixed deposits and short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

Cash and fixed deposits carried in the balance sheet are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.12.

**2.17 Financial liabilities**

Financial liabilities include trade payables, which are normally settled on 30-90 day terms, other amounts payable, payables to related parties and interest-bearing loans and borrowings. Financial liabilities are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. Financial liabilities are initially recognised at fair value of consideration received less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

**2. Significant accounting policies (cont'd)**

### 2.17 Financial liabilities

The interest-free loans from minority shareholders of a subsidiary are stated at fair value at inception. The difference between the fair value and the loan amount at inception is recognised in shareholders' equity in the subsidiary's financial statements. Subsequently, these loans are measured at amortised cost using the effective interest method. The unwinding of the difference is recognised as interest income in the profit and loss account over the expected repayment period.

### 2.18 Borrowing costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

### 2.19 Derecognition of financial assets and liabilities

#### a) Financial assets

A loan and receivable is derecognised where the contractual rights to receive cash flows from the asset have expired which usually coincides with receipt of payments for the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration is recognised in the profit and loss account.

#### b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Gains and losses are recognised in the profit and loss account when the liability is derecognised as well as through the amortisation process.

### 2.20 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### 2.21 Employee benefits

#### a) Defined contribution plan

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. In particular, the Singapore companies in the Group make contributions to the Central Provident Fund ("CPF") scheme in Singapore, a defined contribution pension scheme. The subsidiaries incorporated and operating in the People's Republic of China ("PRC") are required to provide certain staff pension benefits to their employees under existing PRC regulations.

## 2. Significant accounting policies (cont'd)

### 2.21 Employee benefits

#### a) Defined contribution plan

Pension contributions are provided at rates stipulated by PRC regulations and are contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiaries' employees. The subsidiary in Mexico maintains and administers a savings plan for its employees whereby the subsidiary and its permanent employees jointly contribute monthly to the savings plan. The funds collected under this savings plan are allocated to the relevant employees every year. In the event of a termination of employment, the relevant employee may withdraw his entitlement to the funds.

Contributions to national pension schemes are recognised as an expense in the period in which the related services are performed.

#### b) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. The estimated liability for annual leave is recognised for services rendered by employees up to the balance sheet date.

#### c) Equity compensation benefits

Employees of the Group receive remuneration in the form of share options as consideration for services rendered ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which the share options are granted. In valuing the share options, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in the employee share option reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the profit and loss account for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vested irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. The share option reserve is transferred to accumulated profits upon expiry of the options.

## 2. Significant accounting policies (cont'd)

### 2.22 Leases

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the profit and loss account. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

### 2.23 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

#### a) Sales of goods

Revenue is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, which generally coincides with delivery and acceptance of the goods sold. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

#### b) Interest income

Interest income is recognised as interest accrues (using the effective interest method) unless collectibility is in doubt.

#### c) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

### 2.24 Income taxes

#### a) Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

**2. Significant accounting policies (cont'd)**

**2.24 Income taxes**

**b) Deferred tax**

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences (other than those mentioned above), carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**c) Sales tax**

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

**3. Revenue**

Revenue represents sales to customers net of discounts and returns. Intra-group transactions have been excluded from Group revenue.

**4. Other operating income**

| | Group | |
|---|---|---|
| | **2006** $'000 | **2005** $'000 |
| (Loss)/gain on disposal of property, plant and equipment | (261) | 1,143 |
| Property, plant and equipment written off | (73) | – |
| Loss on sale of raw materials | (554) | (337) |
| Sale of scrap materials | 2,922 | 2,371 |
| Tax refund on capital investments | – | 1,033 |
| Sale of molding samples | 916 | 1,546 |
| Compensation from customer | 3,623 | – |
| Others | 420 | 204 |
| | 6,993 | 5,960 |

**5. Profit from operations**

The following items have been included in arriving at profit before tax:

| | Group | |
|---|---|---|
| | **2006** $'000 | **2005** $'000 |
| Allowance for doubtful trade receivables written back | (796) | (1,320) |
| Non-audit fees paid to: | | |
| – auditors of the Company | 29 | 38 |
| – other auditors | 121 | 74 |
| Depreciation of property, plant and equipment | 33,134 | 25,755 |
| Directors' fees | 376 | 384 |
| Directors' remuneration (Note 6) | | |
| – directors of the Company | 2,836 * | 3,713 * |
| – director of a subsidiary company | 141 | 396 |
| Equity compensation expense (Note 6) | 492 | 1,396 |
| Operating lease expenses | 15,361 | 10,565 |
| Research and development costs | 2,264 | 2,656 |
| Personnel expenses (Note 6) | 132,226 | 96,063 |
| Foreign exchange loss | 1,860 | 78 |

* Amount includes performance bonus amounting to approximately $1,879,000 (2005: $2,794,000) pursuant to the Service Agreement entered into with a director. The amount is computed based on 3% of the Group's profit before tax and minority interest for the relevant financial year.

## 6. Personnel expenses

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | $'000 | $'000 |
| Wages, salaries and bonus | 110,243 | 82,028 |
| Pension contributions | 11,229 | 8,200 |
| Other personnel expenses | 13,590 | 9,944 |
| Equity compensation expense (Note 27d) | 492 | 1,396 |
| | 135,554 | 101,568 |

The personnel expenses are inclusive of executive directors' remuneration.

## 7. Financial (expenses) income

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | $'000 | $'000 |
| Interest expense | | |
| – bank term loans | (1,514) | (774) |
| – lease obligations | (41) | (203) |
| – bank overdrafts | (1) | – |
| | (1,556) | (977) |
| Interest income | | |
| – bank balances | 841 | 856 |
| – fixed deposits | 33 | 1 |
| | 874 | 857 |

## 8. Tax

### a) Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2006 and 2005 are :

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | $'000 | $'000 |
| Current tax | | |
| – current year | 4,278 | 6,131 |
| – over provision in respect of prior years | (95) | (465) |
| Deferred tax | | |
| – current year | (297) | (667) |
| | 3,886 | 4,999 |

## 8. Tax (cont'd)

### b) Relationship between tax expense and accounting profit

The reconciliation between the tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2006 and 2005 is as follows:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | $'000 | $'000 |
| Accounting profit before tax | 61,677 | 93,241 |
| Tax at the domestic rates applicable to profits in the countries where the Group operates * | 6,122 | 9,068 |
| Tax effect of losses not available for offset against taxable profits | 30 | 129 |
| Tax effect of expenses that are not deductible in determining taxable profit | 3,991 | 672 |
| Tax effect of income that are not taxable in determining taxable profit | (4,763) | (4,306) |
| Over provision in respect of prior years | (95) | (465) |
| Tax rebate and exemption | (1,141) | (56) |
| Group relief | – | (99) |
| Deferred tax assets not recognized | (297) | – |
| Others | 39 | 56 |
| Tax expense | 3,886 | 4,999 |

* The reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

A loss-transfer system of group relief (group relief system) for companies was introduced in Singapore with effect from year of assessment 2003. Under the group relief system, a company belonging to a group may transfer its current year unabsorbed capital allowances, current year unabsorbed trade losses and current year unabsorbed donations (loss items) to another company belonging to the same group, to be deducted against the assessable income of the latter company.

A subsidiary intends to transfer all its capital allowances and trade losses of approximately $Nil (2005: $312,000) and $Nil (2005: $1,172,000) respectively to the Company under the group relief system, subject to compliance with the relevant rules and procedures and agreement of the Inland Revenue Authority of Singapore.

## 8. Tax (cont'd)

### b) Relationship between tax expense and accounting profit (cont'd)

In accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises", the subsidiaries in the PRC are entitled to full exemption from Enterprise Income Tax ("EIT") for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offset all tax losses carried forward from the previous five years. Accordingly, the profits of these subsidiary companies are taxed at the following tax rates:

| | 2006 | 2005 |
|---|---|---|
| | % | % |
| Hi-P Shanghai Electronics Co., Ltd. | 15 | 15 |
| Hi-P Camera Products Co., Ltd. | 15 | 10 |
| Hi-P Precision Plastic Manufacturing (Shanghai) Co., Ltd. | 7.5 | 7.5 |
| Hi-P (Chengdu) Precision Plastic Manufacturing Co., Ltd. | 10 | 10 |
| Hi-P (Chengdu) Mold Base Manufacturing Co., Ltd. | 7.5 | 7.5 |
| Hi-P (Xiamen) Precision Plastic Manufacturing Co., Ltd. | 15 | 7.5 |
| Qingdao Haier Hi-P Science Technology Co., Ltd. | 12 | 12 |
| Hi-P Tianjin Electronics Co., Ltd. | 7.5 | 7.5 |
| Hi-P (Shanghai) Industries Co., Ltd. | 7.5 | 7.5 |
| Hi-P (Shanghai) Housing Appliance Co., Ltd | 7.5 | 7.5 |
| Hi-P (Shanghai) Precision Mold & Die Co., Ltd. | 7.5 | 7.5 |
| Hi-P (Suzhou) Technology Co., Ltd. | 7.5 | Tax exempt |
| Hi-P (Tianjin) Precision Mold & Die Co., Ltd. | 7.5 | Tax exempt |
| Hi-P (Suzhou) Electronics Co., Ltd | * | Tax exempt |
| Hi-P (Tianjin) Technology Co., Ltd | Tax exempt | ** |
| Hi-P (Shanghai) Technology Co., Ltd | Tax exempt | Tax exempt |
| Hi-P Samkwang Technology (Shanghai) Co., Ltd | * | Tax exempt |
| Hi-P (Dongguan) Technology Co., Ltd | ** | *** |
| Hi-P (Dongguan) Precision Mold & Die Co., Ltd | ** | *** |
| Hi-P (Shanghai) Stamping Mold & Component Industries Co., Ltd | Tax exempt | *** |

* Subsidiary in loss position.
** Subsidiary has not commenced operations.
*** Subsidiary not incorporated yet.

High Precision Moulding and Tools, S.A. de C.V. is subject to the following types of income taxes:

(i) Asset tax: the 1.8% asset tax rate (which is a minimum income tax rate) is computed on the average value of most assets net of certain liabilities. Since asset tax may be credited against income tax, the former is actually payable only to the extent that it exceeds income tax and any amount actually paid may be recovered in any of the succeeding ten years in which income tax exceeds asset tax; and

(ii) Income tax: the applicable corporate income tax rate is 30% (2005: 30%).

There are no income tax consequences attached to the dividends to the shareholders proposed by the Company but not recognised as a liability in the financial statements.

Hi-P Mauritius Ltd. is granted the Global Business Companies Category 1 Licence and is taxed at a flat rate of 15% (2005: 15%). However, the subsidiary is entitled to unilateral foreign tax credits under the Income Tax (Foreign Tax Credit) Regulations 1996, which would result in a maximum effective tax rate of 3%.

**9. Earnings per share**

Basic earnings per share amounts are calculated by dividing profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share amounts are calculated by dividing profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following tables reflects the profit and loss and share data used in the computation of basic and diluted earnings per share for the years ending 31 December.

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| Profit for the year attributable to equity holders of the Company ($'000) | 57,461 | 89,022 |
| Weighted average number of ordinary shares for basic earnings per share computations ('000) | 887,175 | 887,013 |
| Dilution effects of share options ('000) | – | 3,843 |
| Weighted average number of ordinary shares for the effect of dilution ('000) | 887,175 | 890,856 |
| Basic earnings per share (cents) | 6.48 | 10.04 |
| Diluted earnings per share (cents) | 6.48 | 9.99 |

2,416,000 (2005 : Nil) of share options granted to employees under the existing employee share option plan have not been included in the calculation of diluted earning per share because they are anti-dilutive for the current and previous financial periods presented.

## 10. Property, plant and equipment

| Group | Factory buildings and leasehold improvements $'000 | Construction-in-progress $'000 | Renovation $'000 | Plant and machinery $'000 | Motor vehicles $'000 | Office equipment, furniture and fittings $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| As at 1.1.2005 | 20,170 | 4,326 | 16,926 | 172,002 | 1,335 | 15,664 | 230,423 |
| Additions | 853 | 11,902 | 7,609 | 56,794 | 2,519 | 6,543 | 86,220 |
| Reclassification | (4) | (10,110) | 3 | 10,072 | – | 39 | – |
| Disposals | (3,930) | – | – | (293) | – | (650) | (4,873) |
| Translation difference | 219 | 2,132 | 614 | 7,238 | 58 | 559 | 10,820 |
| As at 31.12.2005 and 1.1.2006 | 17,308 | 8,250 | 25,152 | 245,813 | 3,912 | 22,155 | 322,590 |
| Additions | 1,419 | 8,636 | 8,958 | 60,388 | 299 | 6,800 | 86,500 |
| Reclassification | (16) | (3,980) | 5,838 | 1,130 | (2,337) | (635) | – |
| Disposals | – | (1,924) | (636) | (22,176) | (80) | (631) | (25,447) |
| Translation difference | 21 | (273) | (1,373) | (11,186) | (132) | (882) | (13,825) |
| As at 31.12.2006 | 18,732 | 10,709 | 37,938 | 273,969 | 1,663 | 26,807 | 369,818 |
| **Accumulated depreciation** | | | | | | | |
| As at 1.1.2005 | 4,064 | – | 4,156 | 46,083 | 569 | 6,586 | 61,458 |
| Charge for the year | 469 | – | 3,012 | 19,107 | 213 | 2,954 | 25,755 |
| Disposals | (2,310) | – | (172) | (131) | – | (348) | (2,961) |
| Translation difference | 109 | – | 213 | 1,331 | 12 | 197 | 1,862 |
| As at 31.12.2005 and 1.1. 2006 | 2,332 | – | 7,209 | 66,390 | 794 | 9,389 | 86,114 |
| Charge for the year | 383 | – | 3,882 | 24,345 | 213 | 4,311 | 33,134 |
| Reclassification | (20) | – | 473 | 149 | (3) | (599) | – |
| Disposals | – | – | (69) | (9,695) | (62) | (373) | (10,199) |
| Translation difference | (9) | – | (379) | (11,035) | (15) | (342) | (11,780) |
| As at 31.12.2006 | 2,686 | – | 11,116 | 70,154 | 927 | 12,386 | 97,269 |
| **Net carrying amount** | | | | | | | |
| As at 31.12.2006 | 16,046 | 10,709 | 26,822 | 203,815 | 736 | 14,421 | 272,549 |
| As at 31.12.2005 | 14,976 | 8,250 | 17,943 | 179,423 | 3,118 | 12,766 | 236,476 |

During the year, the Group acquired office equipment with an aggregate cost of $10,000 (2005: Nil) by means of finance leases. As at 31 December 2006, the Group's plant and machinery, motor vehicles and office equipment under finance leases were at net carrying values of approximately $63,000 (2005: $181,000), $187,000 (2005: $253,000) and $16,000 (2005: $27,300) respectively.

Leased assets are pledged as security for the related finance lease liabilities.

## 10. Property, plant and equipment (cont'd)

| Company | Factory buildings and leasehold improvements $'000 | Renovation $'000 | Plant and machinery $'000 | Motor vehicles $'000 | Office equipment, furniture and fittings $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| As at 1.1.2005 | 15,629 | 218 | 21,074 | 716 | 899 | 38,536 |
| Additions | 829 | 199 | 7,521 | – | 40 | 8,589 |
| Disposals | – | – | (674) | – | (4) | (678) |
| As at 31.12.2005 and 1.1.2006 | 16,458 | 417 | 27,921 | 716 | 935 | 46,447 |
| Additions | – | 590 | 4,802 | 35 | 63 | 5,490 |
| Disposals | – | – | (3,576) | – | – | (3,576) |
| As at 31.12.2006 | 16,458 | 1,007 | 29,147 | 751 | 998 | 48,361 |
| **Accumulated depreciation** | | | | | | |
| As at 1.1.2005 | 1,860 | 47 | 13,566 | 314 | 544 | 16,331 |
| Charge for the year | 284 | 43 | 2,454 | 118 | 85 | 2,984 |
| Disposals | – | – | (438) | – | (3) | (441) |
| As at 31.12.2005 and 1.1.2006 | 2,144 | 90 | 15,582 | 432 | 626 | 18,874 |
| Charge for the year | 290 | 156 | 3,351 | 100 | 89 | 3,986 |
| Disposals | – | – | (2,731) | – | – | (2,731) |
| As at 31.12.2006 | 2,434 | 246 | 16,202 | 532 | 715 | 20,129 |
| **Net carrying amount** | | | | | | |
| As at 31.12.2006 | 14,024 | 761 | 12,945 | 219 | 283 | 28,232 |
| As at 31.12.2005 | 14,314 | 327 | 12,339 | 284 | 309 | 27,573 |

As at 31 December 2006, the Company's plant and machinery and motor vehicles under finance leases were at net carrying values of approximately $Nil (2005: $46,000) and $187,000 (2005: $253,000) respectively.

Leased assets are pledged as security for the related finance lease liabilities.

## 11. Investments in subsidiaries

| | Company 2006 $'000 | Company 2005 $'000 |
|---|---|---|
| Shares, at cost | 114,713 | 89,966 |
| Amounts due from subsidiaries | 50,589 | 26,075 |
| Additional capital contribution | 3,091 | 3,091 |
| | 168,393 | 29,166 |
| Impairment losses | (28,137) | (8,500) |
| Carrying amount of investments | 140,256 | 110,632 |

The additional capital contribution represents interest foregone on the interest-free long term loans granted by the Company to its subsidiaries (Note 17).

The amounts due from subsidiaries have no repayment terms, non-interest bearing and are repayable only when the cash flows of the subsidiaries permit. Accordingly, the fair value of these amounts is not determinable as the timing of the future cash flows arising from these amounts cannot be estimated reliably.

Details of subsidiaries are as follows:

| Name of company | Principal activities | Country of incorporation and place of business | Equity interest held by the Group 2006 % | Equity interest held by the Group 2005 % | Cost of investment 2006 $'000 | Cost of investment 2005 $'000 |
|---|---|---|---|---|---|---|
| ***Held by the Company*** | | | | | | |
| Hi-P Shanghai Electronics Co., Ltd. ** | Manufacture of molds | People's Republic of China | 100 | 100 | 10,737 | 3,530 |
| High Precision Moulding and Tools, S.A. de C.V. ** | Manufacture of plastic injection parts | Mexico | 100 | 100 | 11,840 | 11,840 |
| Hi-P (Chengdu) Precision Plastic Manufacturing Co., Ltd.** | Manufacture of plastic injection parts | People's Republic of China | 100 | 100 | 8,568 | 4,935 |
| Hi-P Camera Products Co., Ltd. ** | Manufacture of camera products | People's Republic of China | 100 | 100 | 8,489 | 8,489 |
| Hi-P Precision Plastic Manufacturing (Shanghai) Co., Ltd. ** | Spray painting | People's Republic of China | 100 | 100 | 3,769 | 3,769 |

## 11. Investments in subsidiaries (cont'd)

| Name of company | Principal activities | Country of incorporation and place of business | Equity interest held by the Group 2006 % | Equity interest held by the Group 2005 % | Cost of investment 2006 $'000 | Cost of investment 2005 $'000 |
|---|---|---|---|---|---|---|
| Hi-P (Xiamen) Precision Plastic Manufacturing Co., Ltd. ** | Manufacture and sale of plastic product modules | People's Republic of China | 100 | 100 | 4,548 | 4,548 |
| Qingdao Haier Hi-P Science Technology Co., Ltd. ** | Manufacture and sale of plastic product modules | People's Republic of China | 70 | 70 | 2,544 | 2,544 |
| Hi-P (Chengdu) Mold Base Manufacturing Co., Ltd. ** | Manufacture of mold base and components | People's Republic of China | 100 | 100 | 5,070 | 3,007 |
| Hi-P (Shanghai) Housing Appliance Co., Ltd ** | Manufacture of molds and related housing appliance plastic components | People's Republic of China | 100 | 100 | 4,550 | 4,550 |
| Hi-P Tianjin Electronics Co., Ltd. ** | Manufacture of molds | People's Republic of China | 100 | 100 | 4,519 | 4,519 |
| Hi-P Management Services Pte Ltd * | Manufacture and sale of tools, molds and plastic components (dormant) | Singapore | 100 | 100 | – @ | – @ |
| Hi-P Industries Pte. Ltd. * | Manufacture of metal precision components | Singapore | 100 | 100 | 1,500 | 1,500 |
| Hi-P North America, Inc. ## | Provision of engineering support services | United States of America | 100 | 100 | 580 | 580 |
| Hi-P Finland Oy ** | Provision of engineering support services | Finland | 100 | 100 | 16 | 16 |
| Hi-P (Shanghai) Precision Mold & Die Co., Ltd. ** | Manufacture of molds | People's Republic of China | 100 | 100 | 6,506 | 4,335 |
| Hi-P (Suzhou) Technology Co., Ltd. ** | Manufacture of plastic injection parts | People's Republic of China | 100 | 100 | 4,258 | 4,258 |
| Hi-P (Tianjin) Precision Mold & Die Co., Ltd. ** | Manufacture of molds | People's Republic of China | 100 | 100 | 5,827 | 2,431 |

## 11. Investments in subsidiaries (cont'd)

| Name of company | Principal activities | Country of incorporation and place of business | Equity interest held by the Group 2006 % | 2005 % | Cost of investment 2006 $'000 | 2005 $'000 |
|---|---|---|---|---|---|---|
| Hi-P Mauritius Ltd ** | International sales and marketing activities | Mauritius | 100 | 100 | 85 | 85 |
| Hi-P Resources Ltd *** | Provision of human resource to related companies | Mauritius | 100 | 100 | 8 | 8 |
| Hi-P (Suzhou) Electronics Co., Ltd ** | Manufacture and sale of molds and plastic components | People's Republic of China | 100 | 100 | 8,311 | 8,311 |
| Hi-P (Tianjin) Technology Co., Ltd ** | Manufacture and sale of molds and plastic components | People's Republic of China | 100 | 100 | 4,125 | 2,536 |
| Hi-P (Shanghai) Technology Co., Ltd ** | Manufacture and sale of molds and plastic components | People's Republic of China | 100 | 100 | 4,129 | 4,129 |
| Hi-P Samkwang Technology (Singapore) Pte. Ltd. * | Manufacture and production of in-mold decoration lenses | Singapore | 52 | 52 | 1,040 | 1,040 |
| Hi-P Poland SP.ZO.O. ** | Manufacture and sale of molds and plastic components | Poland | 100 | 100 | 3,047 | 530 |
| Hi-P Gmbh ### | Development, design and sales of electro-mechanical components | Germany | 100 | 100 | 51 | 51 |
| Hi-P (Shanghai) Stamping Mold & Component Industries Co., Ltd** | Design and manufacture of metal and non-metal stamping, molds and electric components | People's Republic of China | 100 | 100 | 8,425 | 8,425 |
| Hi-P (Thailand) Co., Ltd** | Manufacture and sale of molds and plastic components | Thailand | 100 | – | 1,000 | – |

## 11. Investments in subsidiaries (cont'd)

| Name of company | Principal activities | Country of incorporation and place of business | Equity interest held by the Group 2006 % | 2005 % | Cost of investment 2006 $'000 | 2005 $'000 |
|---|---|---|---|---|---|---|
| Hi-P (Dong Guan) Technology Co., Ltd** | Design and fabrication of precision plastic injection molding parts, assembly and provide advisors services | People's Republic of China | 100 | – | 585 | – |
| Hi-P (Dong Guan) Precision Mold & Die Co., Ltd** | Design and fabrication of precision plastic injection molding parts, assembly and provide advisors services | People's Republic of China | 100 | – | 586 | – |
| ***Held through Subsidiaries*** | | | | | | |
| Hi-P (Shanghai) Industries Co., Ltd. ** | Manufacture of precision stamped metal components and precision tools and die design and fabrication | People's Republic of China | 100 | 100 | – | – |
| Hi-P Samkwang Technology (Shanghai) Co., Ltd ** | Manufacture and production of in-mold decoration lenses | People's Republic of China | 100 | 100 | – | – |
| | | | | | 114,713 | 89,966 |

* Audited by Ernst & Young, Singapore.

** Audited by member firms of Ernst & Young Global in respective countries.

*** Not required to be audited by the laws of its country of incorporation.

# No statutory audited is required as the entity was incorporated towards the end of the financial year.

## Audited by Charles J. Gries & Company L.L.P. Certified Public Accountants.

### Audited by PricewaterhouseCoopers AG.

@ $2 comprising two subscriber shares of $1 each.

## 12. Investments in associates

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | $'000 | $'000 | $'000 | $'000 |
| Unquoted equity shares, at cost | 1,478 | 1,384 | 1,478 | 1,384 |
| Share of post-acquisition reserves | 1,124 | 942 | – | – |
| Goodwill previously amortised | 124 | 124 | – | – |
| Carrying amount of investments | 2,726 | 2,450 | 1,478 | 1,384 |

Details of associates are as follows:

| **Name of company** | **Principal activities** | **Country of incorporation and place of business** | **Effective Equity interest held by the Group** | | **Cost of investment by the Company** | |
|---|---|---|---|---|---|---|
| | | | **2006** | **2005** | **2006** | **2005** |
| | | | % | % | $'000 | $'000 |
| Express Tech Mfg Pte Ltd* | Manufacture and sale of plastic products and engineering parts | Singapore | 30 | 30 | 503 | 503 |
| Hi-Tec Precision Mould Pte. Ltd. ** | Manufacture and repair of machinery, machine tools and machine tool accessories and die-casting | Singapore | 40 | 40 | 494 | 400 |
| Design Exchange Pte Ltd *** | Provision of product design and development services from concept ideation to mass production support | Singapore | 40 | 40 | 481 | 481 |
| | | | | | 1,478 | 1,384 |

*  Audited by Philip Liew & Co.

**  Audited by Gim Hwa & Co.

***  Audited by Wong, Lee Associate.

## 12. Investments in associates (cont'd)

The summarised financial information of the associates are as follows:

| | 2006<br>$'000 | 2005<br>$'000 |
|---|---|---|
| ***Assets and liabilities:*** | | |
| Current assets | 8,674 | 9,368 |
| Non-current assets | 5,358 | 3,591 |
| Total assets | 14,032 | 12,959 |
| Current liabilities | 3,485 | 4,736 |
| Non-current liabilities | 687 | 944 |
| Total liabilities | 4,172 | 5,680 |
| ***Results:*** | | |
| Revenue | 11,183 | 9,857 |
| Profit for the year | 558 | 84 |

## 13. Other non-current asset

| | Group and Company | |
|---|---|---|
| | 2006<br>$'000 | 2005<br>$'000 |
| Club membership: | | |
| At cost | 36 | 36 |
| Impairment loss | (24) | (24) |
| Carrying value | 12 | 12 |

## 14. Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | 2006<br>$'000 | 2005<br>$'000 | 2006<br>$'000 | 2005<br>$'000 |
| Work-in-progress | 43,649 | 18,608 | 5,134 | 3,860 |
| Raw materials | 33,125 | 23,811 | 958 | 752 |
| Finished goods | 41,722 | 31,872 | 2,281 | 1,944 |
| Total inventories at lower of cost and net realisable value | 118,496 | 74,291 | 8,373 | 6,556 |

During the financial year, the Group wrote-down $6,962,000 (2005: $1,240,000) of inventories which are recognised as expense in the profit and loss account.

## 15. Trade receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | $'000 | $'000 | $'000 | $'000 |
| Trade receivables | 208,313 | 160,604 | 12,320 | 13,136 |
| Other receivables | 18,226 | 14,940 | 172 | 806 |
| Deposits | 2,715 | 3,411 | 182 | 89 |
| | 229,254 | 178,955 | 12,674 | 14,031 |
| Allowance for trade doubtful receivables | (1,222) | (4,369) | – | (53) |
| | 228,032 | 174,586 | 12,674 | 13,978 |

*Trade and other receivables*

Trade and other receivables are non-interest bearing and are generally on 30 to 90 days' terms. They are recognised at their original invoice amounts which represents their fair values on initial recognition.

As at 31 December 2006, the following amounts are included in net trade receivables for the Group:

- $78,637,000 (2005: $63,793,000) denominated in Renminbi;
- $125,195,000 (2005: $92,016,000) denominated in US Dollars;
- $1,822,000 (2005: $75,000) denominated in Euros;

*Allowance for doubtful receivables*

For the year ended 31 December 2006, a write back of allowance for doubtful receivables of $917,000 (2005: $1,183,000) was recognised in the profit and loss account subsequent to a debt recovery assessment performed on trade receivables and other receivables as at 31 December 2006.

## 16. Notes receivables

Notes receivables were issued by customers for trade purchases. The notes receivables have an average maturity of 2.5 to 6 months and interest-bearing. The weighted average effective interest rate is 0.3% (2005: 0.3%). They are recognised at their original invoice amounts which represents their fair values on initial recognition.

### 17. Amounts due from subsidiaries

| | Company | |
|---|---|---|
| | **2006** | **2005** |
| | $'000 | $'000 |
| **Current:** | | |
| Trade | 770 | 287 |
| Non-Trade | 25,711 | 24,642 |
| | 26,481 | 24,929 |
| **Non-current:** | | |
| Non-trade | 11,251 | 10,639 |
| | 37,732 | 35,568 |

The amounts due from subsidiaries are unsecured and are to be settled in cash.

Amounts due from subsidiaries (current) are non-interest bearing and repayable on demand.

Amounts due from subsidiaries (non-current) are non-interest bearing and repayable within 3 to 5 years. The fair value of the amounts due from subsidiaries amounts to $10,109,000 based on the weighted average effective interest rates of 5.75% per annum.

The difference between the transaction price and the fair value of $3,091,000 has been recorded as an additional capital contribution in the subsidiaries (Note 11).

### 18. Amounts due from minority shareholders of subsidiaries

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | $'000 | $'000 |
| Trade | 961 | 1,130 |
| Allowance for doubtful receivables | (121) | (137) |
| | 840 | 993 |

Amounts due from minority shareholders of subsidiaries are non-interest bearing, unsecured and repayable on demand in cash. They are recognised at their original invoice amounts which represents their fair values on initial recognition.

*Allowance for doubtful receivables*

For the year ended 31 December 2006, an impairment loss of $120,000 (2005: $Nil) and a write back of allowance for doubtful receivables of $Nil (2005: $137,000) was recognised in the profit and loss account subsequent to a debt recovery assessment performed on amounts due from minority shareholders of subsidiaries as at 31 December 2006.

## 19. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | $'000 | $'000 | $'000 | $'000 |
| Cash at banks and in hand | 33,177 | 44,082 | 2,048 | 3,399 |
| Fixed deposits | 67 | 29,115 | 67 | 29,115 |
| | 33,244 | 73,197 | 2,115 | 32,514 |

Cash at banks earn interest at floating rates based on daily bank deposit rates ranging from 0.00% to 0.50% (2005 : 0.03% to 0.18%) per annum. Fixed deposits are made for varying periods of between 1 and 12 months depending on the immediate cash requirements of the Group, and earn interest at the respective fixed deposit rates. The weighted average effective interest rate of short term deposits is 4.50% to 4.60% (2005 : 1.60% to 3.25%) per annum.

Cash and cash equivalents denominated in foreign currencies at 31 December are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | $'000 | $'000 | $'000 | $'000 |
| US dollar | 14,897 | 22,175 | 1,858 | 1,949 |
| EUR | 1,334 | (27) | (125) | (125) |
| Singapore dollars | 1,304 | 35,191 | 382 | 30,690 |
| Renminbi | 14,056 | 14,780 | – | – |
| Peso | 167 | 374 | – | – |
| Thai baht | 191 | 702 | – | – |
| Zlotys | 1,295 | 2 | – | – |
| | 33,244 | 73,197 | 2,115 | 32,514 |

## 20. Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | $'000 | $'000 | $'000 | $'000 |
| Trade payables | 168,695 | 129,080 | 5,392 | 9,664 |
| Other payables | 39,708 | 36,112 | 76 | 2,788 |
| | 208,403 | 165,192 | 5,468 | 12,452 |

*Trade payables*

Trade payables are non-interest bearing and are normally settled on 30 to 90 day terms.

As at 31 December 2006, the following amounts are included in trade payables for the Group:

- $127,547,000 (2005: $103,844,000) denominated in Renminbi;
- $31,087,000 (2005: $20,034,000) denominated in US Dollars;
- $2,608,000 (2005: $734,000) denominated in Euros;
- $3,376,000 (2005: $892,000) denominated in Japanese Yen;
- $179,000 (2005: $Nil) denominated in Peso;
- $50,000 (2005: $70,000) denominated in New Taiwan Dollars; and
- $1,000 (2005: $10,000) denominated in Hong Kong Dollars.

*Other payables*

Other payables include amounts due to creditors in relation to the purchase of property, plant and equipment.

Other payables are non-interest bearing and have an average term of 30 to 90 days.

## 21. Amounts due to subsidiaries (trade and non-trade)

Amounts due to subsidiaries are non-interest bearing and are repayable within 12 months. These amounts are unsecured and are to be settled in cash.

## 22. Amounts due to minority shareholders of subsidiaries (non-trade)

Amounts due to minority shareholders of subsidiaries are non-interest bearing and are repayable within 12 months and 3 years for current and non-current balances respectively. These amounts are unsecured and are to be settled in cash.

## 23. Lease obligations

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **Total minimum lease payments** $'000 | **Present value of payments** $'000 | **Total minimum lease payments** $'000 | **Present value of payments** $'000 |
| **2006** | | | | |
| Within one year | 72 | 61 | 63 | 55 |
| After one year but not more than five years | 178 | 158 | 133 | 114 |
| Total minimum lease payments | 250 | 219 | 196 | 169 |
| Less amounts representing finance charges | (30) | – | (27) | – |
| Present value of minimum lease payments | 219 | 219 | 169 | 169 |
| **2005** | | | | |
| Within one year | 402 | 362 | 255 | 228 |
| After one year but not more than five years | 255 | 227 | 197 | 170 |
| Total minimum lease payments | 657 | 589 | 452 | 398 |
| Less amounts representing finance charges | (68) | – | (54) | – |
| Present value of minimum lease payments | 589 | 589 | 398 | 398 |

The Group has finance leases for certain items of plant and machinery, motor vehicles and office equipment (Note 10). These leases have terms of renewal but no purchase options and escalation clauses. There are no restrictions placed upon the Group by entering into these leases. Renewals are at the option of the specific entity that holds the lease. The average discount rate implicit in the leases are 2.3% to 4.25% (2005: 2.3% to 4.25%) per annum. The effective interest rate in the finance leases are 16.3% to 18.2% (2005: 9.2% to 13.8 %) per annum.

These obligations are secured by a charge over the leased assets (Note 10).

## 24. Interest-bearing loans and borrowings

| | Effective interest rate | Maturity | Group 2006 $'000 | Group 2005 $'000 | Company 2006 $'000 | Company 2005 $'000 |
|---|---|---|---|---|---|---|
| Bank term loan bearing interest at SWAP offer rate (6 months) plus 1.25% per annum and is repayable over 17 equal half-yearly instalments, commencing 30 June 1998 | 13.0% | 2006 | – | 694 | – | 694 |
| Bank term loan bearing interest at SIBOR plus 1% per annum | 6.2% | 2007 | 1,544 | 1,665 | – | – |
| Bank term loan bearing interest at SIBOR plus 1% per annum | 6.2% | 2007 | 2,317 | 2,497 | – | – |
| Bank term loan bearing interest at SIBOR plus 1% per annum | 6.2% | 2006 | 3,089 | – | – | – |
| Bank term loan bearing interest at SIBOR plus 1% per annum | 5.3% | 2006 | 12,062 | – | – | – |
| Bank term loan bearing interest at 4.78% per annum, repayable over on 25 January 2007 | 4.8% | 2007 | 3,200 | – | 3,200 | – |
| Bank term loan bearing interest at 3.97% per annum, repayable over on 25 January 2007 | 4.0% | 2007 | 3,000 | – | 3,000 | – |
| Due within 12 months | | | 25,212 | 4,856 | 6,200 | 694 |

The bank term loans are secured by a corporate guarantee from the Company.

## 25. Deferred tax

Deferred income tax as at 31 December relates to the following:

| | Group | | | | Company | |
|---|---|---|---|---|---|---|
| | Consolidated balance sheet | | Consolidated profit and loss account | | Balance sheet | |
| | **2006** | **2005** | **2006** | **2005** | **2006** | **2005** |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Deferred tax liabilities** | | | | | | |
| Differences in depreciation | (2,530) | (2,786) | 45 | (12) | (2,418) | (2,774) |
| **Deferred tax assets** | | | | | | |
| Unutilised tax losses | 252 | 679 | 252 | 679 | – | – |
| **Deferred income tax expense** | | | 297 | 667 | | |

No deferred tax was charged to equity during the year.

*Unrecognised tax losses*

The Group has tax losses of approximately $2,980,000 (2005: $14,238,000) that are available for offset against future taxable profits of the companies in which the losses arose for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate.

*Unrecognised temporary differences relating to investments in subsidiaries and associates*

As at 31 December 2006, there was no recognised deferred tax liability (2005: $Nil) for taxes that would be payable on the unremitted earnings of certain of the Company's subsidiaries or associates, as:

- The Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future; and

- The Company has agreements with its associates that the profits of the associate will not be distributed until it obtains the consent of the company. The Company does not foresee giving such consent in the foreseeable future.

The temporary differences associated with investments in subsidiaries and associates, for which deferred tax liability has not been recognised, aggregate to $243,047,000 (2005: $195,868,000). The amount of deferred tax liability is estimated to be $16,746,000 (2005: $16,917,000).

*Tax consequences of proposed dividends*

There are no income tax consequences attached to the dividends to the shareholders proposed by the Company but not recognised as a liability in the financial statements (Note 29).

## 26. Share capital

| | Group and Company | |
|---|---|---|
| | **2006** | **2005** |
| | $'000 | $'000 |
| **Issued and fully paid** | | |
| At beginning of year | 44,357 | 44,350 |
| Exercise of share option | 1 | 7 |
| Transfer of share premium to share capital | 75,367 | – |
| At end of year | 119,725 | 44,357 |

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction.

The Company has an employee share option scheme (Note 28) under which options to subscribe for the Company's ordinary shares have been granted to employees.

In accordance with the Companies (Amendment) Act 2005, on 30 January 2006, the shares of the company ceased to have a par value and the amount standing in the share premium reserve became part of the Company's share capital.

## 27. Other reserves

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | $'000 | $'000 | $'000 | $'000 |
| Reserve fund (a) | 21,286 | 17,618 | – | – |
| Foreign currency translation reserve (b) | (17,187) | (664) | – | – |
| Capital reserve (c) | 74 | 37 | – | – |
| Employee share option reserve (d) | 2,572 | 2,171 | 2,572 | 2,171 |
| | 6,745 | 19,162 | 2,572 | 2,171 |

### a) Reserve fund

Pursuant to the relevant laws in the People's Republic of China ("PRC"), the Group has set aside reserve fund, which may be utilised to offset accumulated losses or increase the capital of subsidiaries, subject to approval from the PRC authorities. The above fund is not available for dividend distribution to the shareholders.

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | $'000 | $'000 | $'000 | $'000 |
| At beginning of year | 17,618 | 16,044 | – | – |
| Transfer from accumulated profits | 3,635 | 1,666 | – | – |
| Reclassification | – | (92) | – | – |
| Increase in reserves | 33 | – | – | – |
| At end of year | 21,286 | 17,618 | – | – |

### 27. Other reserves (cont'd)

#### b) Foreign currency translation reserve

The foreign currency translation reserve records exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | $'000 | $'000 | $'000 | $'000 |
| At beginning of year | (664) | (10,035) | – | – |
| Net effect of exchange differences arising from translation of financial statements of foreign operations | (16,523) | 9,371 | – | – |
| At end of year | (17,187) | (664) | – | – |

#### (c) Capital reserves

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | $'000 | $'000 | $'000 | $'000 |
| At beginning and end of year | 37 | 37 | – | – |
| Currency translation difference | 37 | – | – | – |
| At end of year | 74 | 37 | – | – |

#### (d) Employee share option reserve

Employee share option reserve represents the equity-settled share options granted to employees (Note 28). The reserve is made up of the cumulative value of services received from employees recorded over the vesting period commencing from the grant date of equity-settled share options.

| | Group and Company | |
|---|---|---|
| | **2006** | **2005** |
| | $'000 | $'000 |
| At beginning of year | 2,171 | 775 |
| Granted during the year | 1,170 | 1,790 |
| Forfeited during the year | (665) | (316) |
| Exercised during the year | (13) | (78) |
| Transfer to share capital | (91) | – |
| Closing balance at 31 December | 2,572 | 2,171 |

**28. Equity compensation benefits**

The Hi-P Employee Share Option Scheme ("the Option Scheme") was approved and adopted at the Company's Extraordinary General Meeting held on 7 October 2004. The Option Scheme applies to executive directors, employees of the Group, controlling shareholders and their associates. The Option Scheme is administered by the Remuneration Committee, comprising Messrs Leong Lai Peng (Chairman) (Appointed on 9 November 2006), Yao Hsiao Tung and Dr Tan Khee Giap.

Other information regarding the Option Scheme is set out below:

(i) The exercise price of the options is determined at the average of the last dealt price for the Company's shares on the Singapore Exchange Securities Trading Limited ("SGX-ST") on the five business days immediately preceding the date of grant of such options.

(ii) 50% of the options vest one year after the grant date, and the remaining 50% vest two years after the grant date.

(iii) The options expire 8 years after the grant date.

(iv) The options are only settled by equity.

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, equity share options during the year.

| | **No. 2006** '000 | **WAEP 2006** $ | **No. 2005** '000 | **WAEP 2005** $ |
|---|---|---|---|---|
| Outstanding at beginning of year | 3,843 | 1.39 | 4,139 | 1.40 |
| Granted during the year[1] | 2,709 | 1.11 | 425 | 1.35 |
| Forfeited during the year | (923) | 1.34 | (571) | 1.53 |
| Exercised during the year[2] | (25) | 1.39 | (150) | 1.39 |
| Outstanding during the year[3] | 5,604 | 1.28 | 3,843 | 1.39 |
| Exercisable at end of year | 3,101 | 1.40 | 1,764 | 1.40 |

1 The weighted average fair value of options granted during the year was $0.4267 (2005: $0.4248).

2 The weighted average share price at the date of exercise for the options exercised was $1.11 (2005: $1.39).

3 The range of exercise prices for options outstanding at the end of the year was $1.11 to $1.73 (2005: $1.39 to $1.73). The weighted average remaining contractual life for these options is 6.35 years (2005: 6.67 years).

## 28. Equity compensation benefits (cont'd)

The fair value of share options as at the date of grant is estimated by an external valuer using a binomial model, taking into account the terms and conditions upon which the options were granted. The inputs to the model used for the years ended 31 December 2006 and 31 December 2005 are shown below.

| | 2006 | 2005 |
|---|---|---|
| Expected volatility (%) | 38.40 | 42.63 |
| Historical volatility (%) | 40.50 | 40.50 |
| Risk-free interest rate (%) | 3.55 | 2.66 |
| Expected dividend yield (%) | 1.00 | 0.70 |
| Expected life of options (years) | 8 | 4 |
| Weighted average share price ($) | 1.04 | 1.55 |

To allow for the effects of early exercise, it was assumed that employees would exercise the options after vesting date when the share price was above the exercise price.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of the option grant were incorporated into the measurement of fair value.

## 29. Dividends

| | Group and Company | |
|---|---|---|
| | **2006** | **2005** |
| | $'000 | $'000 |
| **Declared and paid during the year** | | |
| *Dividends on ordinary shares:* | | |
| • Final dividend less tax at 20% (2004 : 20%) for 2005: 1.0 cents (2004 : 1.0 cents) | 7,097 | 7,096 |
| **Proposed but not recognised as a liability as at 31 December** | | |
| *Dividend on ordinary shares, subject to shareholders' approval at the Annual General Meeting:* | | |
| • Final dividend less tax at 20% (2005 : 20%) for 2006: 0.8 cents (2005 : 1.0 cents) | 5,820 | 7,097 |

## 30. Contingent liabilities and commitments

### (a) Capital expenditure commitments

Capital expenditure contracted for as the balance sheet date but not recognised in the financial statements is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $'000 | $'000 | $'000 | $'000 |
| Commitments in respect of purchase of property, plant and equipment | 10,396 | 3,176 | 169 | – |

### (b) Operating lease commitments

The Group and Company have entered into commercial leases on plant and machinery, motor vehicles, office equipment, factory sites, offices and staff accommodation. The lease terms range from 1 year to 7 years with options to purchase or renewal options at the end of the lease terms. There are no restrictions upon the Group or the Company by entering into these leases. Operating lease payments recognised in the consolidated profit and loss account during the year amount to $15,361,000 (2005: $10,565,000).

Future minimum rentals under non-cancellable leases are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $'000 | $'000 | $'000 | $'000 |
| Future minimum lease payments | | | | |
| – not later than 1 year | 12,286 | 13,637 | 405 | 400 |
| – 1 year through 5 years | 25,870 | 32,802 | 1,620 | 1,601 |
| – later than 5 years | 24,663 | 24,031 | 17,480 | 17,847 |
| | 62,819 | 70,470 | 19,505 | 19,848 |

### (c) Contingent liabilities

The Company granted corporate guarantees of $20,773,000 (2005: $11,802,000) and $17,663,000 (2005: $17,663,000) in favour to third party suppliers for purchases made by subsidiaries and banks for term loans obtained by subsidiaries respectively as at 31 December 2006.

## 31. Related party information

### a) Sale and purchase of goods and services

In addition to those related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties who are not members of the Group took place during the year at terms agreed between the parties:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | $'000 | $'000 | $'000 | $'000 |
| **Income** | | | | |
| Sales to a corporate shareholder and companies related to the shareholder | 218 | 575 | – | – |
| Sales to a minority shareholder of a subsidiary and companies related to the shareholder | 1,863 | 3,540 | – | – |
| Sales to subsidiaries | – | – | 1,755 | 3 |
| Sales of property, plant and equipment to a subsidiary | – | – | 3,228 | 234 |
| Dividend income from subsidiaries | – | – | 25,100 | 12,764 |
| **Expenses** | | | | |
| Purchases of materials from a corporate shareholder and companies related to the shareholder | 2,905 | 8,906 | – | – |
| Purchases from subsidiaries | – | – | 162 | 1,012 |
| Purchases from related companies | – | – | – | 38 |
| Management fee paid to subsidiary | – | – | 3,427 | 1,148 |

**31. Related party information (cont'd)**

**b) Compensation of key management personnel**

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | $'000 | $'000 |
| Other short-term employee benefits | 4,753 | 6,596 |
| Equity compensation expense | 657 | 784 |
| Total compensation paid to key management personnel | 5,410 | 7,380 |
| Comprise amounts paid to : | | |
| Directors of the Company | 2,836 | 4,122 |
| Other key management personnel | 2,574 | 3,258 |
| | 5,410 | 7,380 |

The remuneration of key management personnel are determined by the Remuneration Committee having regard to the performance of individuals and market trends.

*Directors' and key management personnel's interests in the Hi-P Employee Share Option Scheme*

At 31 December 2006, two of the Company's executive directors held 1,600,000 options to purchase ordinary shares of the Company under the Hi-P Employee Share Option Scheme (Note 28). These options entitle these executive directors to purchase 1,600,000 ordinary shares at a price of $1.39 each, exercisable between 20 July 2006 to 19 July 2012.

During the year ended 31 December 2006, no options were granted to the aforementioned executive directors. No options were exercised by the executive directors during the year.

No share options have been granted to the Company's non-executive directors.

**32. Financial risk management objectives and policies**

The Group's principal financial instruments comprise cash at banks, fixed deposits, bank loans, overdrafts and finance leases. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in derivative financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

## 32. Financial risk management objectives and policies (cont'd)

### *Interest rate risk*

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long term debt obligations. The Group obtains additional financing through bank borrowings and leasing arrangements. The Group's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure.

### *Liquidity risk*

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, and finance leases.

### *Foreign exchange risk*

As a result of significant investment operations in People's Republic of China ("PRC"), Mauritius and Mexico, the Group's balance sheet can be affected significantly by movements in the Renminbi ("RMB")/SGD, US Dollars/SGD and Mexican Peso/SGD exchange rates.

The Group also has transactional currency exposures. Such exposures arise from sales or purchases by an operating unit in currencies other than the unit's functional currency.

The Group manages its foreign exchange exposure risk by matching, as far as possible, receipts and payments in each individual currency. Foreign currency is converted into the relevant measurement currency as and when management deems necessary. The unhedged exposure is reviewed and monitored on an ongoing basis and management will consider hedging any exposure where appropriate.

### *Credit risk*

The Group trades with all third parties with credit verification. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on ongoing basis with the results that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, other receivables, the Group's exposure to credit risk arises from default of counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades with all third parties with credit verification, collateral may be required. There are no significant concentrations of credit risk within the Group or the Company.

## 33. Financial instruments

### a) Fair values

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

*Financial instruments whose carrying amount approximate fair value*

Management has determined that the carrying amounts of cash and fixed deposits, current trade and other receivables, current trade and other payables and current bank loans, based on their notional amounts, reasonably approximate their fair values because these are mostly short term in nature or are repriced frequently.

*Financial instruments carried at other than fair value*

Set out below is a comparison by category of carrying amounts and fair values of all of the Group and Company's financial instruments that are carried in the financial statements at other than fair values as at 31 December:

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | | Fair value | | Carrying amount | | Fair value | |
| | **2006** $'000 | **2005** $'000 | **2006** $'000 | **2005** $'000 | **2006** $'000 | **2005** $'000 | **2006** $'000 | **2005** $'000 |
| **Financial assets:** | | | | | | | | |
| Amounts due from subsidiaries | – | – | – | – | 61,480 | 36,714 | 59,195 | 35,350 |
| **Financial liabilities:** | | | | | | | | |
| Amounts due to minority shareholders of subsidiaries | 4,399 | 5,159 | 4,399 | 4,940 | – | – | – | – |
| Lease obligations | 158 | 227 | 144 | 207 | 114 | 170 | 104 | 155 |

*Methods and assumptions used to determine fair values*

Fair value has been determined using discounted estimated cash flows. Where repayment terms are not fixed, future cash flows are projected based on management's best estimates. The discount rates used are the current market incremental lending rates for similar types of lending, borrowing and leasing arrangements.

## 33. Financial instruments (cont'd)

### b) Interest rate risk

The following table sets out the carrying amount, by maturity, of the Group's and the Company's financial instruments that are exposed to interest rate risk:

| **2006** | **Within 1 year** | **1-2 years** | **Total** |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **Group** | | | |
| ***Fixed rate*** | | | |
| Notes receivables | 673 | – | 673 |
| Bank loans | (25,212) | – | (25,212) |
| Obligations under finance leases | (61) | (158) | (219) |
| ***Floating rate*** | | | |
| Cash and fixed deposits | 33,196 | – | 33,196 |
| Bank overdrafts | (321) | – | (321) |
| **Company** | | | |
| ***Fixed rate*** | | | |
| Bank loans | (6,200) | – | (6,200) |
| Obligations under finance leases | (55) | (114) | (169) |
| **Floating rate** | | | |
| Cash and fixed deposits | 2,067 | – | 2,067 |
| Bank overdrafts | (321) | – | (321) |

| **2005** | **Within 1 year** | **1-2 years** | **Total** |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **Group** | | | |
| ***Fixed rate*** | | | |
| Notes receivables | 1,992 | – | 1,992 |
| Bank loans | (4,856) | – | (4,856) |
| Obligations under finance leases | (362) | (227) | (589) |
| **Floating rate** | | | |
| Cash and fixed deposits | 73,197 | – | 73,197 |
| **Company** | | | |
| ***Fixed rate*** | | | |
| Bank loans | (694) | – | (694) |
| Obligations under finance leases | (228) | (170) | (398) |
| ***Floating rate*** | | | |
| Cash and fixed deposits | 32,514 | – | 32,514 |

Interest on financial instruments subject to floating interest rates is contractually repriced at intervals of less than 6 months. Interest on financial instruments at fixed rates is fixed until the maturity of the instrument. The other financial instruments of the Group and the Company that are not included in the above tables are not subject to interest rate risks.

**34. Segment information**

**Reporting format**

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary information is reported geographically. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

**Business segments**

For management purposes, the Group is organised on a world-wide basis into three major operating activities. These operating activities are the basis on which the Group reports its primary segment information which are namely:

– Precision plastic injection molding ("PPIM")

– Mold design and fabrication ("MDF")

– Provision of sub-product assembly and full-product assembly services ("Assembly")

**Geographical segments**

The Group's geographical segments are based on the location of the Group's operations. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers.

**Allocation basis and transfer pricing**

Segment assets and liabilities cannot be directly attributable to individual business segments and it is impractical to allocate them to the business segments. Accordingly, it is not meaningful to disclose assets, liabilities and capital expenditure by business segments.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, expenses and results include transfers between business segments. These transfers are eliminated on consolidation.

## 34. Segment information (cont'd)

### (a) Business segments

| 2006 | PPIM $'000 | MDF $'000 | Assembly $'000 | Eliminations $'000 | Consolidated $'000 |
|---|---|---|---|---|---|
| **Revenue:** | | | | | |
| Sales to external customers | 344,060 | 50,131 | 444,890 | – | 839,081 |
| Inter-segment sales | 32,939 | – | – | (32,939) | – |
| | 376,999 | 50,131 | 444,890 | (32,939) | 839,081 |
| **Results:** | | | | | |
| Profit from operations | 41,852 | 7,037 | 15,146 | – | 64,035 |
| Financial expenses | | | | | (1,556) |
| Financial income | | | | | 874 |
| Foreign exchange loss, net | | | | | (1,860) |
| Share of results of associates | | | | | 184 |
| Profit before tax | | | | | 61,677 |
| Tax expense | | | | | (3,886) |
| Profit for the year | | | | | 57,791 |
| **Other information** | | | | | |
| Depreciation | 19,304 | 5,572 | 8,258 | – | 33,134 |
| Other non-cash income | 318 | 29 | 115 | – | 462 |

| 2005 | PPIM $'000 | MDF $'000 | Assembly $'000 | Eliminations $'000 | Consolidated $'000 |
|---|---|---|---|---|---|
| **Revenue:** | | | | | |
| Sales to external customers | 267,901 | 49,786 | 315,267 | – | 632,954 |
| Inter-segment sales | 13,925 | – | – | (13,925) | – |
| | 281,826 | 49,786 | 315,267 | (13,925) | 632,954 |
| **Results:** | | | | | |
| Profit from operations | 61,319 | 12,074 | 20,007 | – | 93,400 |
| Financial expenses | | | | | (977) |
| Financial income | | | | | 857 |
| Foreign exchange loss, net | | | | | (39) |
| Share of results of associates | | | | | (114) |
| Profit before tax | | | | | 93,127 |
| Tax expense | | | | | (4,999) |
| Profit for the year | | | | | 88,128 |
| **Other information** | | | | | |
| Depreciation | 19,846 | 4,123 | 1,786 | – | 25,755 |
| Other non-cash income | 700 | 138 | 229 | – | 1,067 |

## 34. Segment information (cont'd)

### (b) Geographical segments

Revenue is based on the location of customers. Assets and additions to property, plant and equipment are based on the location of those assets.

| | Revenue | | Assets | | Capital expenditure | |
|---|---|---|---|---|---|---|
| | 2006 $'000 | 2005 $'000 | 2006 $'000 | 2005 $'000 | 2006 $'000 | 2005 $'000 |
| Asia | | | | | | |
| People's Republic of China | 429,100 | 243,893 | 483,164 | 404,845 | 71,089 | 74,351 |
| Singapore | 75,944 | 110,150 | 130,375 | 89,702 | 5,571 | 8,706 |
| Malaysia | 12,318 | 8,166 | – | – | – | – |
| Others | 16,416 | 11,683 | 2,685 | 2,349 | 339 | 941 |
| | 533,778 | 373,892 | 616,224 | 496,896 | 76,999 | 83,998 |
| Europe | 167,559 | 218,398 | 9,570 | 2,580 | 4,156 | 2,172 |
| United States and the rest of Americas | 137,744 | 40,664 | 25,744 | 21,229 | 5,343 | 50 |
| Others | – | – | 6,729 | 45,775 | 2 | – |
| | 839,081 | 632,954 | 658,267 | 566,480 | 86,500 | 86,220 |

## 35. Post Balance Sheet Event

On 15 March 2007, the Company had acquired 960,000 ordinary shares in its 52% owned subsidiary, Hi-P Samkwang Technology (Singapore) Pte. Ltd. ("Hi-P Samkwang") for a total consideration of $209,474. After the acquisition, Hi-P Samkwang became a wholly-owned subsidiary of the Company.

## 36. Authorisation of financial statements

The financial statements for the year ended 31 December 2006 were authorised for issue in accordance with a resolution of the Directors on 19 March 2007.

# *Statistics of Shareholdings*

***as at 15 March 2007***

## DISTRIBUTION OF SHAREHOLDINGS

| Size of Shareholdings | No. of Shareholders | % | No. of Shares | % |
|---|---|---|---|---|
| 1 – 999 | 9 | 0.32 | 1,596 | 0.00 |
| 1,000 – 10,000 | 1,698 | 61.57 | 10,558,610 | 1.19 |
| 10,001 – 1,000,000 | 1,027 | 37.24 | 50,319,500 | 5.67 |
| 1,000,001 and above | 24 | 0.87 | 826,295,294 | 93.14 |
| **Total** | **2,758** | **100.00** | **887,175,000** | **100.00** |

## TWENTY LARGEST SHAREHOLDERS

| No. | Name | No. of Shares | % |
|---|---|---|---|
| 1 | Yao Hsiao Tung | 488,708,400 | 55.09 |
| 2 | Molex International Inc | 178,361,600 | 20.10 |
| 3 | DBS Nominees Pte Ltd | 76,879,000 | 8.67 |
| 4 | DBSN Services Pte Ltd | 18,182,000 | 2.05 |
| 5 | HSBC (Singapore) Nominees Pte Ltd | 14,098,000 | 1.59 |
| 6 | Citibank Nominees Singapore Pte Ltd | 12,083,000 | 1.36 |
| 7 | Raffles Nominees Pte Ltd | 8,013,000 | 0.90 |
| 8 | United Overseas Bank Nominees Pte Ltd | 5,095,294 | 0.57 |
| 9 | Morgan Stanley Asia (S'pore) Securities Pte Ltd | 3,763,000 | 0.42 |
| 10 | UOB Kay Hian Pte Ltd | 2,505,000 | 0.28 |
| 11 | Kim Eng Securities Pte. Ltd. | 2,179,000 | 0.25 |
| 12 | Chan Hean Wee | 2,090,000 | 0.24 |
| 13 | Phillip Securities Pte Ltd | 2,041,000 | 0.23 |
| 14 | Lim & Tan Securities Pte Ltd | 1,740,000 | 0.20 |
| 15 | DBS Vickers Securities (S) Pte Ltd | 1,736,000 | 0.20 |
| 16 | Ho Hock Yong | 1,690,000 | 0.19 |
| 17 | OBCB Securities Private Ltd | 1,411,000 | 0.16 |
| 18 | Chew Poh Chee | 1,400,000 | 0.16 |
| 19 | Ho Teck Heng | 1,397,000 | 0.16 |
| 20 | Royal Bank of Canada (Asia) Ltd | 1,331,000 | 0.15 |
| | **Total** | **824,703,294** | **92.96** |

### Shareholders' Information As At 15 March 2007

| | | |
|---|---|---|
| Number of shares | : | 887,175,000 |
| Issued and fully paid-up capital | : | 119,725,495 |
| Class of shares | : | Ordinary shares |
| Voting rights | : | One vote per share |

### Substantial Shareholders

Substantial shareholders of the Company (as recorded in the Registrar of Substantial Shareholders) as at 15 March 2006.

| No. of Ordinary shares of S$0.05 each | | | | |
|---|---|---|---|---|
| **Name** | **Direct Interest** | **%** | **Indirect Interest** | **%** |
| Yao Hsiao Tung | 488,708,400 | 55.09 | 0 | 0 |
| Wong Huey Fang (Note 1) | 0 | 0 | 488,708,400 | 55.09 |
| Molex International Inc | 178,361,600 | 20.10 | 0 | 0 |
| Molex Incorporated (Note 2) | 0 | 0 | 178,361,600 | 20.10 |

**Notes:**

1. Mdm Wong Huey Fang is the spouse of Mr Yao Hsiao Tung. As such, Mdm Wong Huey Fang is deemed to have an interest in the 488,708,400 shares held by Mr Yao Hsiao Tung.

2. Molex International Inc is a subsidiary of Molex Incorporated. As such, Molex Incorporated is deemed to have an interest in the 178,361,600 shares held by Molex International Inc.

### Free Float

As at 15 March 2007, approximately 24.96% of the issued share capital of the Company was held in the hands of the public (on the basis of information available to the Company).

Accordingly, the Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

## HI-P INTERNATIONAL LIMITED

Company Registration Number 198004817H
(Incorporated in the Republic of Singapore)

## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of Hi-P International Limited (the "Company") will be held at Albizia Room 1, Jurong Country Club, 9 Science Centre Rd, Singapore 609078 on Thursday, 19 April 2007 at 3.00 pm for the following purposes:

**Ordinary Business**

1. To receive and adopt the Directors' Report and Audited Accounts of the Company for the year ended 31 December 2006 together with the Auditors' Report thereon.
**(Resolution 1)**

2. To declare a first and final dividend of 0.8 cents per share less income tax for the year ended 31 December 2006.
**(Resolution 2)**

3. To re-elect the following Directors retiring pursuant to Articles 91 and 97 of the Company's Articles of Association:

| | | |
|---|---|---|
| Mdm Wong Huey Fang | [Article 91] | (**Resolution 3)** |
| Mr Chester Lin Chien | [Article 91] | (**Resolution 4**) |
| Ms Leong Lai Peng | [Article 97] | (**Resolution 5**) |

Ms Leong Lai Peng will, upon re-election as a Director of the Company, remain as a member of the Audit Committee and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

4. To approve the payment of Directors' fees of S$338,000.00 for the year ended 31 December 2006 (2005: S$338,000.00).
**(Resolution 6)**

5. To re-appoint Messrs Ernst & Young as the Company's Auditors and to authorise the Directors to fix their remuneration.
**(Resolution 7)**

6. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

**Special Business**

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

7. Authority to allot and issue shares up to fifty per cent. (50%) of issued capital

"That, pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806(2) of the Listing Manual of the Singapore Exchange Securities Trading Limited (the "Listing Manual"), authority be and is hereby given to the Directors to:-

(a) allot and issue shares in the Company; and

(b) issue convertible securities and any shares in the Company pursuant to convertible securities

(whether by way of rights, bonus or otherwise) at any time and upon such terms and conditions and for such purposes and to such persons as the Directors shall in their absolute discretion deem fit, provided that the aggregate number of shares (including any shares to be issued pursuant to the convertible securities) in the Company to be issued pursuant to such authority shall not exceed fifty per cent. (50%) of the issued share capital of the Company for the time being and that the aggregate number of shares in the Company to be issued other than on a pro-rata basis to the then existing shareholders of the Company shall not exceed twenty per cent. (20%) of the issued share capital of the Company for the time being. Unless revoked or varied by the Company in general meeting, such authority shall continue in full force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting is required by law to be held, whichever is earlier, except that the Directors shall be authorised to allot and issue new shares pursuant to the convertible securities notwithstanding that such authority has ceased.

For the purposes of this Resolution and Rule 806(3) of the Listing Manual, the percentage of issued share capital is based on the issued share capital of the Company at the time this Resolution is passed after adjusting for:-

(i) new shares arising from the conversion or exercise of convertible securities;

(ii) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution, provided the options or awards were granted in compliance with the rules of the Listing Manual; and

(iii) any subsequent consolidation or subdivision of shares." [See Explanatory Note (i)]

**(Resolution 8)**

8. Authority to grant options and issue shares under the Hi-P Employee Share Option Scheme

"That pursuant to Section 161 of the Companies Act, Cap. 50, the Directors of the Company be and are hereby authorised to offer and grant options in accordance with the Hi-P Employee Share Option Scheme (the "Scheme") and to issue such shares as may be required to be issued pursuant to the exercise of the options granted under the Scheme provided always that the aggregate number of shares to be issued pursuant to the Scheme shall not exceed fifteen per cent. (15%) of the issued share capital of the Company from time to time." [See Explanatory Note (ii)]

**(Resolution 9)**

By Order of the Board

Yao Hsiao Tung
Executive Chairman
Chief Executive Officer

Singapore, 2 April 2007

**Explanatory Notes:**

(i) The Ordinary Resolution 8 proposed in item 7 above, if passed, will empower the Directors from the date of the above Meeting until the date of the next Annual General Meeting, to allot and issue shares and convertible securities in the Company. The aggregate number of shares (including any shares issued pursuant to the convertible securities) which the Directors may allot and issue under this Resolution will not exceed fifty per cent. (50%) of the issued share capital (as defined in Resolution 8) of the Company. For issues of shares other than on a pro rata basis to all shareholders, the aggregate number of shares to be issued shall not exceed twenty per cent. (20%) of the issued share capital (as defined in Resolution 8) of the Company. This authority will, unless previously revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier. However, notwithstanding the cessation of this authority, the Directors are empowered to issue shares pursuant to any convertible securities issued under this authority.

(ii) The Ordinary Resolution 9 proposed in item 8 above, if passed, will empower the Directors of the Company, to grant options and to allot and issue shares upon the exercise of such options in accordance with the Hi-P Employee Share Option Scheme.

**Notes:**

1. A member entitled to attend and vote at the Meeting is entitled to appoint not more than two proxies to attend and vote instead of him. A proxy need not be a member of the Company.

2. If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.

3. The instrument appointing a proxy must be deposited at the registered office of the Company at 11 International Business Park, Singapore 609926 not less than forty-eight (48) hours before the time for holding the Meeting.

# HI-P INTERNATIONAL LIMITED

Company Registration Number 198004817H
(Incorporated in the Republic of Singapore)

**IMPORTANT**

1. For investors who have used their CPF monies to buy Hi-P International Limited shares, the Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

## PROXY FORM

I/We ______________________________________________ (Name)

of ______________________________________________ (Address)

being a member/members of HI-P INTERNATIONAL LIMITED (the "Company") hereby appoint:

| Name | Address | NRIC/Passport Number | Proportion of Shareholdings(%) |
|---|---|---|---|
| | | | |

and/or (delete as appropriate)

| Name | Address | NRIC/Passport Number | Proportion of Shareholdings(%) |
|---|---|---|---|
| | | | |

as my/our proxy/proxies to vote for me/us on my/our behalf, at the Annual General Meeting of the Company (the "Meeting") to be held at Albizia Room 1, Jurong Country Club, 9 Science Centre Rd, Singapore 609078 on Thursday, 19 April 2007 at 3.00 pm and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/their discretion, as he/they will on any matter arising at the Meeting.

| No. | Resolutions Relating to: | For | Against |
|---|---|---|---|
| 1. | Directors' Report and Accounts for the year ended 31 December 2006 | | |
| 2. | Payment of proposed first and final dividend | | |
| 3. | Re-election of Mdm Wong Huey Fang | | |
| 4. | Re-election of Mr Chester Lin Chien | | |
| 5. | Re-election of Mdm Leong Lai Peng | | |
| 6. | Approval of Directors' fees | | |
| 7. | Re-appointment of Messrs Ernst & Young as Auditors | | |
| 8. | Authority to issue and allot shares pursuant to Section 161 of the Companies Act, Cap. 50 | | |
| 9. | Authority to grant options and issue shares under the Hi-P Employee Share Option Scheme | | |

Dated this ____________ day of ____________________ 2007

| Total No. of Shares | No. of Shares |
|---|---|
| In CDP Register | |
| In Register of Members | |

Signature(s) of Member(s)
or, Common Seal of Corporate Member

**IMPORTANT: PLEASE READ NOTES OVERLEAF**

**NOTES**

1. A member entitled to attend and vote at the Meeting is entitled to appoint not more than two proxies to attend and vote in his stead.

2. Where a member appoints more than one proxy, the appointments shall be invalid unless he specifies the proportion of his holding (expressed as a percentage of the whole) to be represented by each proxy.

3. A proxy need not be a member of the Company.

4. A member should insert the total number of shares held. If the member has shares entered against his name in the Depository Register (as defined in Section 130A of the Companies Act, Cap. 50 of Singapore), he should insert that number of shares. If the member has shares registered in his name in the Register of Members of the Company, he should insert that number of shares. If the member has shares entered against his name in the Depository Register and registered in his name in the Register of Members, he should insert the aggregate number of shares. If no number is inserted, this form of proxy will be deemed to relate to all shares held by the member.

5. The instrument appointing a proxy or proxies must be deposited at the Company's registered office at **11 International Business Park, Singapore 609926**, not less than 48 hours before the time set for the Meeting.

6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.

7. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.

**GENERAL:**

The Company shall be entitled to reject a proxy form which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the proxy form. In addition, in the case of shares entered in the Depository Register, the Company may reject a proxy form if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

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Tel : 6533 0795 Fax : 6532 6316

HI-P INTERNATIONAL LIMITED
赫比国际有限公司

11 International Business Park
Jurong East, Singapore 609926
Tel: 65. 6268 5459
www.hi-p.com
Company Registration No: 198004817H